Appendix G

Economic Overview

Canada

Economic growth in Canada has been revised up for 2019 largely due to a surprise surge in exports in the second quarter which resulted mainly from temporary factors. Growth is expected to continue but soften for the second half of 2019 as the oil sector continues to face transportation challenges and production constraints, and weakness in foreign demand, escalating global trade conflicts, and geopolitical tensions are weighing heavily on business investment and exports. In 2020 and 2021, growth is expected to increase but at a slower pace than previously estimated due to weaker foreign demand and additional trade policy uncertainty, partially offset by lower mortgage rates and the larger working age population. GDP growth is projected to increase from 1.5% in 2019 to 1.7% in 2020 and 1.8% in 2021[1]. Core measures of inflation continue to hover at about 2%, and inflation is expected to remain close to 2% through 2020 and 2021. The Bank of Canada continues to hold the overnight lending rate at 1.75% based on current economic data.

British Columbia (Content provided by TD Economics[2])

Despite a slump in housing activity that dragged into the early part of 2019, British Columbia's economic expansion is still on track for a decent showing this year. Other industries – notably non-residential construction and high-tech services – have taken up the slack left by declining housing-related spending. And with housing markets recently showing signs of firming, B.C.'s economy is anticipated to return to the top of the provincial leaderboard in 2020.

B.C.'s housing markets now appear to be turning the corner following an extended adjustment that began in early 2018. Existing home sales jumped 7% (q/q) in the second quarter and started the third quarter on even stronger footing. As a result, markets, including that of the Greater Vancouver Area, are now roughly in balanced territory. This performance, combined with a lower-than-expected borrowing rates, have prompted an upward revision to our sales and price forecasts, though only moderate in light of still-weak affordability.

British Columbia recently lost its shine as the holder of the country's lowest unemployment rate to Quebec. Still, the province's labour markets remain healthy by virtually all measures. Job growth is running at a strong 3.4% (year-to-date y/y), wages are rising at a solid 4.2% y/y rate and the job vacancy rate remains the highest in the country. This, alongside a modest recovery in housing markets, will help support solid household spending in the near term.

We remain constructive on prospects for non-residential construction activity. B.C. topped the country this year in terms of growth in capital investment intentions. Moreover, the value of non-residential building permits (namely commercial office space, retail complex buildings, and institutional buildings) is up 50% (ytd y/y), while figures on monthly construction investment show a corresponding surge in nominal and real non-residential structures. Final investment decisions on large-scale investment projects, including LNG Canada and the associated pipeline, are poised to contribute positively to growth over the longer term.

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[1] Bank of Canada Monetary Policy Report, October 2019
[2] TD Economics Provincial Economic Forecast (September 19, 2019)

Despite these growth tailwinds, B.C.'s export-oriented industries on the whole are likely to face a challenging environment in the coming quarters amid moderating growth in China, uncertainty linked to elevated trade tensions, and the unresolved issues within its forestry sector.

Regional District of Nanaimo

The positive economic indicators for the Regional District of Nanaimo (RDN) continue, with the exception of the housing resale market where the market has transitioned from one favouring sellers to a more balanced market that in some areas favours buyers. The RDN issued 202 building permits in the third quarter vs. 195 in 2018. Average single family dwelling prices for September 2019 at $569,667 in Nanaimo and $618,565 in Parksville/Qualicum are down -2% and up 7% respectively over September 2018; additionally, the number of sales is down in Nanaimo by -7% and up 33% in Parksville/Qualicum[3].

The unemployment rate of 4.1% for Vancouver Island/Coast has not changed from last quarter, and remains below the 4.8% provincial rate (increased from 4.3% last quarter), which was the second lowest provincial rate in Canada (after Quebec at 4.7%) during the month of September[4]. BC Ferries September 2019 Year to Date Vehicle and Passenger traffic increased at Departure Bay by 0.89% and 0.5% respectively, and decreased at Duke Point by -0.89% and -2.09% from September 2018[5].

There are a number of factors that will impact the Canadian, BC and Vancouver Island economies in 2020 and forward including interest rate changes, the Canadian dollar fluctuations, climate change, trade agreement battles and global politics. These areas have had some negative effects on the Island economy; however, at this time, BC and Vancouver Island are expected to continue to show growth.

[3] Vancouver Island Real Estate Board Single Family Home Average Sales Price, Sep 2019
[4] Statistics Canada, Labour Force Survey, September 2019, The Daily, October 11, 2019
[5] BC Ferries, Traffic Statistics System Total Vehicle and Passenger Counts by Route for Sep 2019