

Economic Overview

Appendix G

Canada

The Canadian economy is considered to be operating at near capacity and GDP growth remained at a strong 2.9% in the second quarter of 2018. Even with an expectation of slower growth for the remainder of the year, real GDP is forecast at 2% for the remainder of 2018 and for 2019 as well¹. Inflation increased to 2.7% in the third quarter of 2018, but is projected to decline back to 2% by early 2019. The Bank of Canada raised its benchmark rate to 1.75% in October which is the third increase this year. Forecasts at this time indicate additional increases to interest rates to keep inflation at the desired 2% are likely as the economy remains strong¹.

British Columbia (Content provided by TD Economics²)

BC is expected to lead economic growth this year, sharing the podium with a still-recovering Alberta. This will mark a slowdown in growth following several gangbuster years. A weakening in the province's housing markets and increasing evidence of capacity constraints are the main reasons for the anticipated deceleration. Still, armed with healthy fundamentals (evidenced in broad-based growth across industries) and a strong demographic profile, BC should see above-trend growth of 2.4% in 2018.

On the labour market front, indicators are strongly pointing to tightening conditions. BC's unemployment rate is the lowest in Canada, averaging just below 5% this year, while the province's job vacancy rate, at 4.2%, is the highest. Indeed, according to the Bank of Canada's Business Outlook Survey, BC is amongst the top in the country in both physical and labour constraints. With workers harder to come by, job growth has slowed. This, accompanied by above-average wage growth, is strong evidence that the economy is running at full employment.

The tight labour market should translate into higher consumer spending. Retail sales have gone up a healthy 3.8% year-to-date relative to last year. We expect this to continue over the forecast horizon, with sales supported by income growth, which will get an additional boost from scheduled increases in the minimum wage.

The economy's current weakest link is undoubtedly its housing market. The compounding effects of affordability and rising rates, in addition to provincial regulations, are weighing on sales and residential investment. Year-to-date home sales in the province are down a drastic 20% relative to last year, driven by the GVA market. A slowdown in housing is a long time coming, and while some improvement is likely, this sector is unlikely to be the supportive force it has been over the past several years.

Regional District of Nanaimo

Positive economic indicators continue for the Regional District of Nanaimo. The unemployment rate of 4.5% for Vancouver Island/Coast for October 2018 is close to the 4.1% provincial rate which was the lowest in Canada during the month of October³. For January through September, 991 building permits (Regional District as a whole including municipalities) have

¹ Bank of Canada Monetary Policy Report, October 2018

² TD Economics Provincial Economic Forecast (September 18, 2018)

³ Statistics Canada, Labour Force Survey, October 2018, The Daily, November 2, 2018

been reported compared to 1,043 permits for the same period in 2017⁴. Although this represents a decrease of 4.8%, it is still substantially higher than the low of 689 permits for the entire year of 2013.

Average single family dwelling prices for October, 2018 at \$559,149 in Nanaimo and \$659,265 in Parksville/Qualicum are up 8% and 10% respectively over October 2017; however, the number of sales is down by 5% in both areas as well⁵. As indicated above in the BC Section, this may indicate some cooling of the housing market; however, Vancouver Island demographics which include a higher level of retirees moving here mortgage free offset the impacts of the interest rate and housing policy changes being felt in other areas of the Province. BC Ferries September, 2018 Year to Date Vehicle and Passenger traffic declined 1.37% and 1.80% at Departure Bay, but increased at Duke Point by 1.12% and 0.56% over September 2017⁶. Overall, tourism statistics remain strong in BC and for the Island for 2018 even with the summer forest fires.

There are a number of factors that will impact the Canadian, BC and Vancouver Island economies in 2019 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 in the forestry area in particular; however, at this time, BC and Vancouver Island are expected to continue to show growth.

⁴ BC Stats BC Building Permits for Development Regions and Regional Districts, Residential Building Permits (Total number of units) Jan-Sept 2018

⁵ Vancouver Island Real Estate Board Single Family Home Benchmark Price, October 2018

⁶ BC Ferries, Traffic Statistics System Total Vehicle and Passenger Counts by Route for September 2018