

British Columbia

NEW HEADWINDS EMERGE AFTER SUCCESSFUL PHASE ONE

We anticipate that BC's economy will be a relatively strong performer among the provinces this year, but region-specific challenges have emerged in the summer months. BC's broad-based pre-pandemic expansion and fiscal health were the envy of the provinces: since the last commodity price drop began in 2014, BC's 14.7% real output gains trailed only those of PEI, and its 13% job creation led all other jurisdictions. That resulted in seven consecutive annual surpluses beginning in FY14, one of the lowest net debt burdens of any Province, and a vaunted AAA credit rating.

BC's labour market has lost more steam than other jurisdictions since the post-lockdown burst of activity. BC successfully contained the virus' first wave and was able to ease lockdowns relatively quickly, but full-time employment and hours worked have generally lagged national-level results since April. That partly reflects BC's industry mix. Information, culture & recreation and accommodation & food services—slammed by cratered tourist activity via COVID-19 restrictions—together accounted for about 10% of BC's workforce last year—more than any other province. As well, construction, while resilient, is coming off of all-time highs in jobs and homebuilding early last year.

Home sales activity has recovered nicely from early-year lockdowns. Existing home purchases and listings gains in Southern BC cities—in the midst of strong population and employment gains plus elevated housing absorption rates pre-pandemic—have generally outpaced the national mean in the last two months. Pent-up demand appears to be supporting those markets alongside rock-bottom borrowing costs. Yet the outlook is murky. In particular, continued weakness in immigration amid border closures and apprehension about international travel is expected to weaken household formation. Population growth has already cooled to 1.1% y/y in Q2-2020, after hovering near two-decade highs of about 1.6% in 2018–19.

For trade, record prices in the staple lumber industry have helped to offset the drag from still-soft production volumes (chart) and cratered global export demand. Expecting a pandemic-induced plunge in demand, lumber producers cut back output by more than 50% y/y in April. Yet, with hardy US home building and output only beginning to ramp up, prices for Western lumber surged to all-time highs. We anticipate that prices will ease entering 2021, though much depends on pandemic impacts south of the border and producers' ability to replenish inventories in the winter months.

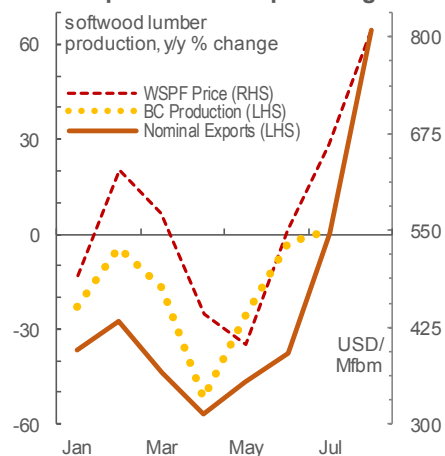
Work related to the LNG Canada Coastal Gaslink Export Pipeline megaproject is ongoing—albeit with COVID-19-related delays—but the industry faces broadly less certain prospects in the weaker commodity pricing environment. The softer global backdrop has led to cancellations, postponement of construction and investment decisions, and difficulty obtaining funding around the globe; as such, sectoral upside risk that we previously

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| Economic Outlook annual % change except where noted | | | | |
|--|-----|------|-----|-----|
| | 19e | 20f | 21f | 22f |
| Real GDP | 2.8 | -4.9 | 3.7 | 3.4 |
| Nominal GDP | 4.4 | -3.7 | 5.7 | 5.7 |
| Employment | 2.6 | -6.3 | 5.4 | 2.5 |
| Unemployment Rate, % | 4.7 | 9.1 | 7.1 | 6.0 |
| Housing Starts, 000s | 45 | 35 | 28 | 32 |
| Total CPI | 2.3 | 0.6 | 1.5 | 2.2 |

Price and Production Surges Send Propel Lumber Exports Higher



identified in BC is far less likely than before COVID-19. Still, the province maintains advantages such as abundant reserves and shorter shipping distance to Asia than the US Gulf Coast.

With the October 24 provincial election looming, the Province last month released details of its economic recovery plan. Pillars of the plan include a refundable tax credit for firms that hire modest and medium-income employees, and a sales tax rebate on new purchases of new machinery and equipment. These targeted efforts have potential to support job creation and investment activity on the margins, though the course of the virus will undoubtedly be the primary driver of growth going forward.

| Provincial Forecast Summary | | | | | | | | | | | |
|--------------------------------------|----------|--------|------|------|------|-------|---------|--------|--------|---------|---------|
| (annual % change except where noted) | | | | | | | | | | | |
| Real GDP | CA | NL | PE | NS | NB | QC | ON | MB | SK | AB | BC |
| 2010–19 | 2.2 | 0.9 | 2.2 | 1.0 | 0.7 | 1.8 | 2.2 | 2.1 | 2.1 | 2.5 | 2.8 |
| 2019* | 1.7 | 4.0 | 4.5 | 2.1 | 1.0 | 2.7 | 1.6 | 1.0 | -0.8 | -0.6 | 2.8 |
| 2020f | -5.7 | -6.8 | -3.3 | -4.3 | -3.7 | -6.0 | -5.7 | -3.1 | -5.9 | -7.3 | -4.9 |
| 2021f | 4.1 | 3.2 | 3.7 | 4.1 | 3.8 | 4.3 | 4.2 | 3.5 | 4.0 | 4.1 | 3.7 |
| 2022f | 3.1 | 1.7 | 2.9 | 2.8 | 2.7 | 3.2 | 3.2 | 2.7 | 3.1 | 3.3 | 3.4 |
| Nominal GDP | | | | | | | | | | | |
| 2010–19 | 3.9 | 3.3 | 4.0 | 2.7 | 2.8 | 3.8 | 4.0 | 3.9 | 3.2 | 3.5 | 4.5 |
| 2019e | 3.6 | 4.0 | 4.5 | 3.0 | 2.9 | 4.6 | 3.8 | 2.8 | 2.5 | 0.7 | 4.4 |
| 2020f | -4.9 | -8.8 | -1.7 | -3.3 | -2.5 | -4.1 | -3.7 | -2.0 | -8.2 | -10.0 | -3.7 |
| 2021f | 6.5 | 5.5 | 5.5 | 5.8 | 5.7 | 6.5 | 6.6 | 4.9 | 6.9 | 7.4 | 5.7 |
| 2022f | 5.5 | 3.8 | 4.9 | 4.7 | 4.4 | 5.4 | 5.6 | 4.7 | 5.6 | 6.4 | 5.7 |
| Employment | | | | | | | | | | | |
| 2010–19 | 1.3 | 0.5 | 1.4 | 0.4 | -0.1 | 1.2 | 1.5 | 0.8 | 1.0 | 1.4 | 1.6 |
| 2019 | 2.1 | 0.6 | 2.7 | 2.2 | 0.8 | 1.8 | 2.9 | 0.9 | 1.8 | 0.5 | 2.6 |
| 2020f | -5.1 | -6.2 | -2.2 | -4.5 | -2.8 | -4.8 | -4.9 | -3.2 | -4.4 | -6.4 | -6.3 |
| 2021f | 5.2 | 4.0 | 4.9 | 5.0 | 4.5 | 5.3 | 5.1 | 4.9 | 5.5 | 5.6 | 5.4 |
| 2022f | 2.4 | 0.7 | 2.6 | 2.2 | 2.3 | 2.3 | 2.4 | 2.3 | 2.6 | 2.7 | 2.5 |
| Unemployment Rate (%) | | | | | | | | | | | |
| 2010–19 | 6.9 | 13.0 | 10.5 | 8.6 | 9.3 | 7.0 | 7.0 | 5.5 | 5.2 | 6.2 | 6.1 |
| 2019 | 5.7 | 11.9 | 8.8 | 7.2 | 8.0 | 5.1 | 5.6 | 5.3 | 5.4 | 6.9 | 4.7 |
| 2020f | 9.5 | 14.2 | 10.4 | 10.0 | 9.7 | 9.1 | 9.4 | 8.1 | 8.7 | 11.2 | 9.1 |
| 2021f | 7.7 | 12.9 | 9.1 | 8.3 | 8.3 | 7.3 | 7.7 | 6.4 | 6.5 | 9.1 | 7.1 |
| 2022f | 6.5 | 12.2 | 7.9 | 7.2 | 7.3 | 6.2 | 6.5 | 5.3 | 5.3 | 7.7 | 6.0 |
| Housing Starts (units, 000s) | | | | | | | | | | | |
| 2010–19 | 201 | 2.2 | 0.8 | 4.2 | 2.7 | 44 | 70 | 6.6 | 6.0 | 31 | 34 |
| 2019 | 209 | 0.9 | 1.5 | 4.7 | 2.9 | 48 | 69 | 6.9 | 2.4 | 27 | 45 |
| 2020f | 206 | 0.8 | 1.0 | 4.5 | 3.1 | 52 | 78 | 6.0 | 3.0 | 22 | 35 |
| 2021f | 174 | 0.8 | 1.1 | 3.9 | 2.5 | 42 | 63 | 5.7 | 2.1 | 25 | 28 |
| 2022f | 185 | 0.8 | 1.2 | 4.0 | 2.5 | 45 | 66 | 6.2 | 2.5 | 25 | 32 |
| Motor Vehicle Sales (units, 000s) | | | | | | | | | | | |
| 2010–19 | 1,820 | 33 | 7 | 51 | 41 | 432 | 715 | 55 | 53 | 237 | 194 |
| 2019 | 1,917 | 34 | 8 | 53 | 41 | 454 | 788 | 53 | 46 | 227 | 214 |
| 2020f | 1,568 | 29 | 7 | 43 | 35 | 381 | 625 | 46 | 40 | 186 | 177 |
| 2021f | 1,800 | 32 | 7 | 50 | 41 | 434 | 714 | 54 | 47 | 218 | 204 |
| 2022f | 1,908 | 33 | 8 | 53 | 43 | 462 | 759 | 56 | 49 | 231 | 215 |
| Budget Balances, (CAD mn) | | | | | | | | | | | |
| 2019 | -17,770 | -1,386 | -4 | 41 | 98 | 1,900 | -8,672 | 5 | -319 | -12,152 | -321 |
| 2020f** | -410,000 | -1,838 | -178 | -853 | -299 | 0 | -38,538 | -2,938 | -2,130 | -24,159 | -12,792 |
| 2021f*** | -125,000 | | | | | | | | | | |
| 2022f | -75,000 | | | | | | | | | | |

* Based on preliminary GDP by industry estimates for all provinces but Quebec and Ontario. ** NL budget balance in 2020 is net of one-time revenue boost via *Atlantic Accord*.
*** In order to align with US reporting, as of the August 2020 issue of Scotiabank's Forecast Tables, Canadian Federal and Provincial Budget Balances for FY2020/21 are noted in calendar year 2020, FY2021/22 in calendar year 2021. Sources: Scotiabank Economics, Statistics Canada, CMHC, Budget documents; Quebec budget balance figures are after Generations Fund and Stabilization Reserve transfers.

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