



Highlights:

- B.C.'s economy forecast to grow by 4.2 per cent in 2021 and by 4.5 per cent in 2022 before slowing to below three per cent in 2023;
- Stronger export and investment recovery and ongoing growth in knowledge sectors as global economic backdrop improves amid vaccine deployment
- Housing demand anticipated to remain robust, lifting residential investment
- Hospitality and other face-to-face services unlikely to fully recover during outlook period
- B.C. has regained 89 per cent of jobs lost during the initial stages but progress uneven
- Consumer consumption is expected to climb 4.7 per cent this year, trending towards three per cent by 2023.

B.C. Economic Outlook 2021-23 Update

Summary

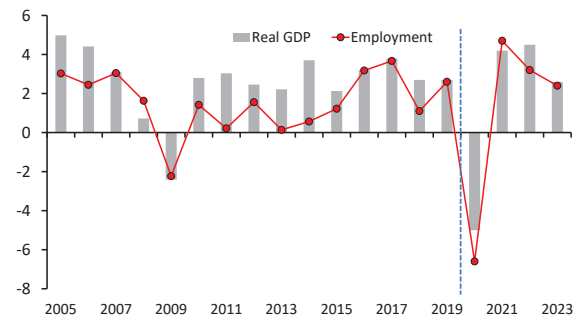
Like economies around the globe, B.C.'s economy continues to recover from the sharp pandemic-driven downturn in 2020. Headwinds related to ongoing social and economic restrictions to limit the spread of the virus will continue to contain economic activity into 2022 but growth will be supported by adjustments by businesses and households, the vaccine rollout, and ongoing government support.

B.C. economic growth is forecast to reach 4.2 per cent this year and 4.5 per cent in 2022 before slowing to below three per cent in 2023. Broad-based growth is expected; supported by higher consumer spending on goods, rising goods exports and non-residential investment, while housing holds steady. Ongoing restrictions will delay rebounds in service industries tied to hospitality, accommodations, and other private services.

Labour markets are expected to mend alongside the economy. Robust hiring growth is expected, while the unemployment rate remains elevated this year at seven per cent before trending toward five per cent by 2023.

B.C. economy rebounds following pandemic ravaged 2020

B.C. economic indicators, year-over-year per cent change



Source: Statistics Canada, Central 1 Credit Union

Macro-economy remains in recovery phase

Nearly a year after the start of the global pandemic, the world is still grappling to contain the spread COVID-19. This is leading to an uneven recovery trajectory as countries move in and out of social and economic restrictions as case clusters emerge during the ongoing second wave. As of early February 2021, more than 105 million people have been afflicted by the virus worldwide, with more than 2.3 million deaths, according to the [World Health Organization](#). Moreover, further risks have emerged since the fall as COVID-19 variants add greater complexity to response measures. Specifically, the UK and South African variants have significantly more transmissibility than the standard variant. This has led to further global travel restrictions as the government combats both existing and new threats.

Global growth prospects improve with vaccine deployment

IMF GDP Growth Outlook, Per Cent



Source: IMF, Central 1

However, there is an end in sight. The turnaround time in the development, testing and production of vaccines has been nothing short of astounding, leading to vaccine deployments from Moderna, Pfizer/Biontech, and Astra Zeneca among others. The vaccines come at a critical time and provide a tool to end the pandemic and mitigate the economic damages caused by the second wave.

Given the nature of the public health crisis, economic patterns will generally synchronize with the global economic conditions and be dictated by the path of the pandemic. Global economic trend recovered during the second half of 2020, albeit at an uneven pace, but slowed with the second wave. While near-term performance remains uncertain, the economy's expansion is set to accelerate from the second quarter onwards amidst accelerated vaccine deployment, ongoing fiscal support and accommodative financial conditions. Investment spending will likely rise quicker than consumer spending as firms plan for the post-pandemic economy, while consumption of services requires broader vaccine coverage.

The latest [IMF World Economic Outlook](#) revised expectations to a contraction of 3.5 per cent in 2020, with growth expected to rebound to 5.5 per cent this year and 4.2 per cent in 2022. U.S. growth forecasts have been revised sharply higher, reflecting rapid vaccine deployment, production in the country, and a Biden administration that promises more income support. Specifically, the new administration has proposed \$1.9 trillion in measures, which will likely be approved, providing support for households and business investment. While there are some questions about the new administration's focus on a 'Buy America' platform, growth in the country is a tide that lifts all boats. China, which locked down fast and managed to expand in 2020 by two per cent, looks to build on this in 2021. Broadly, economic rebounds will depend on regional pandemic conditions and economic restrictions.

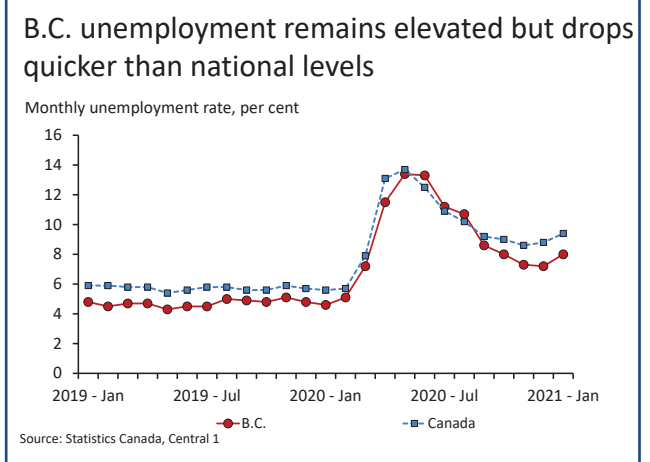
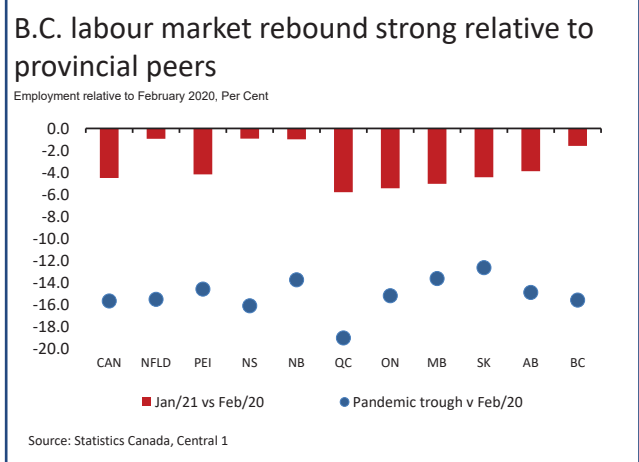
Canada's economy is forecast to rebound by about four per cent this year following a 5.5 per cent contraction in 2020. A 2021 first quarter contraction, reflecting the pandemic second wave and increased social and economic restrictions in Ontario and Quebec, is expected to give way to a rising trend lifted by exports and investments amidst an improving global backdrop. Consumer spending will also pick up as physical distancing requirements ease and travel demand picks up. Rapid accumulation of household savings, which reached 27 per cent of disposable income in the second quarter of 2020 and nearly 15 per cent in the third quarter will partly be spent as the pandemic

wanes. Government measures to support households will continue and government spending continues to support the economy.

Economic slack and elevated unemployment will persist. November 2020 gross domestic product (GDP) held 3.5 per cent below pre-pandemic levels and a recovery to that level does not occur until late 2021, particularly as high-touch sectors face continued restrictions. Subdued consumer price inflation will maintain accommodative monetary conditions, with the Bank of Canada expected to hold the policy rate at 0.25 per cent until 2023.

B.C. economic growth to expand more than four per cent annually after pandemic hit

B.C.'s economy was ravaged in 2020 amidst health fears and the effects of broad social and economic restrictions. We estimate that GDP contracted by 5.0 per cent, marking the steepest decline since 1982, when GDP fell 6.4 per cent. Contractions were widespread with losses heavily concentrated in tourism, hospitality and other industries that require more face-to-face interactions. Average B.C. employment declined 6.6 per cent, which was the sharpest decline since 1980. The unemployment rate averaged the highest since 1994 at 9.0 per cent.



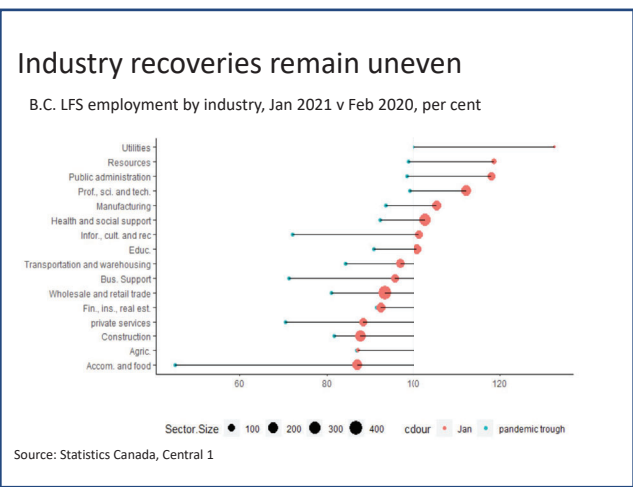
The province continues to recover from the pandemic trough although improvements are uneven. The second wave of the virus during the the winter months has tempered gains, but it is likely the province will avoid an outright contraction during the first quarter given relatively modest restrictions on businesses. In-house dining and non-essential retail services remained open in the province, unlike Ontario and Quebec.

On an annual basis, B.C.'s economy is forecast to grow by 4.2 per cent this year and 4.5 next year before slowing to below three per cent in 2023. Key themes that emerged during last year's recovery phase are expected to continue into 2021 as mobility and economic restrictions continues, and travel remains heavily constrained. However, a strengthening global economic backdrop and vaccine deployment leads to a stronger export and investment recovery, ongoing growth in knowledge sectors. Housing demand is anticipated to remain robust and lift residential investment, while hospitality and other face-to-face services struggle to fully recover.

Uneven growth recovery highlighted by employment trends

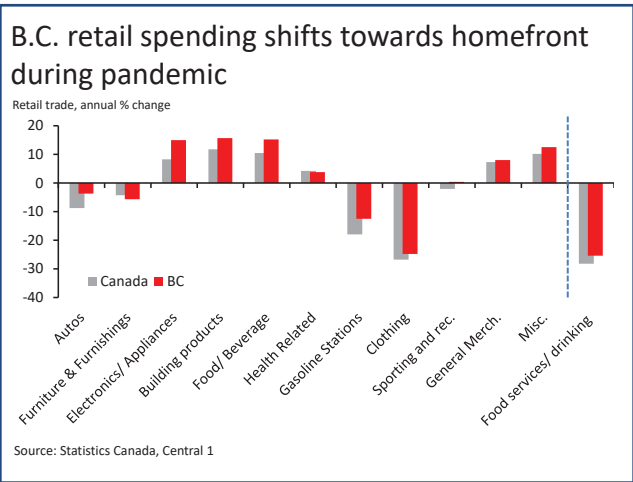
Labour market trends highlight the recovery phase heading into 2021. B.C. employment has recovered more quickly than its provincial peers despite a deeper initial downturn. The province regained 89 per cent of jobs lost during the initial stages of the pandemic and employment sat within 1.5 per cent of pre-pandemic levels in January. This has compared well with the national performance where Labour Force Survey employment was still down more than three per cent. Hours worked in the economy have similarly evolved, although full-time employment has lagged the recovery in part-time employment work.

That said, rebounds are uneven. Employment related to tourism and in sectors requiring more face-to-face interaction remain sharply below pre-pandemic levels. In contrast, stronger recoveries have been observed in industries that have adapted quickly to the new environment through shifts to a remote working environment, adoption of online technologies and marketplaces, and natural physical distancing. Goods-producing sectors (aside from construction), public administration, professional/scientific services and health-related employment have fully rebounded. Job losses have largely affected individuals in lower paid occupations and sectors, but effects are being offset by various government support measures.

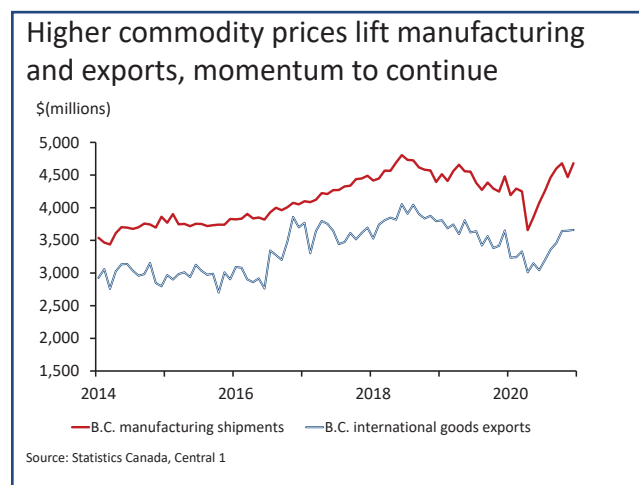


Broad based improvement expected, hardest hit services sector face hurdles to full recovery

Consumer spending will climb, based on increased employment and labour income, and ongoing government support, following a sharp decline last year due to the negative economic shock of the pandemic, restrictions to travel and retail services and the shift to work-from-home. Retail sales edged higher last year but spending on vehicles, clothing and gasoline fell, while spending on groceries, renovations and electronics rose reflecting the massive changes in how people lived. Shifting purchasing patterns from retail services to goods is difficult to estimate but is evident in employment trends while food service sales fell by a quarter. A return to more normal spending patterns is forecast with consumer consumption expected to climb 4.7 per cent this year and trend towards three per cent by 2023. Demand for vehicles and semi-durable goods are expected to normalize but services consumption will not return to pre-pandemic levels until mid- 2022. This reflects the impacts of physical distancing and travel restriction constraints on spending related to personal services, restaurants, events, and travel.

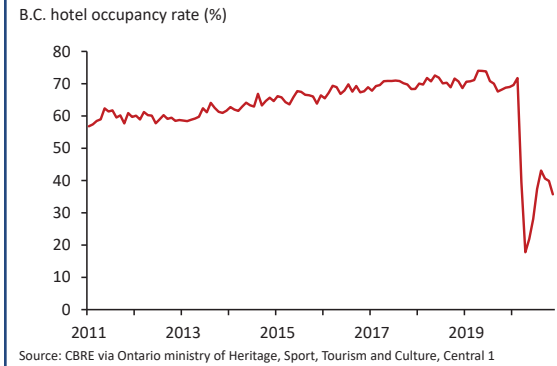


Positive export and manufacturing trends continue, reflecting the strengthening global growth profile and stronger commodity price conditions. Trends improved in the latter half of 2020 owing to higher sales of food products, forestry sector and resources. While down on a full-year basis, both manufacturing and goods exports rose on a year-over-year basis near year-end. That said, recovery patterns in the forestry sector largely reflected higher prices over the past year, driven by firm U.S. lumber demand, while physical volumes were down considerably. Real production and exports fell. Coal and natural gas production held steady, but price declines impacted dollar-volume sales. These sectors are expected to expand further with stronger global demand while elevated commodity prices will induce higher levels of production.



A rebound in services exports is delayed (similar to services consumption). While the economy moves towards the conclusion of the pandemic, social and economic restrictions will continue. A return to free travel will depend on the state of vaccinations. Since the pandemic began, international travel visits to the province has declined by more than 90 per cent and material improvement is unlikely to unfold until late 2021 with a more robust gain in 2022 onwards. Domestic tourism has provided only a minor offset to this weakness. Low tourism, restrictions on large scale events, and needs for physical distancing means sectors like hospitality, food services, and entertainment will continue to struggle into 2023 despite elevated year-over-year growth performances.

Tourism exports dive during pandemic, rebound contingent on vaccine rollout



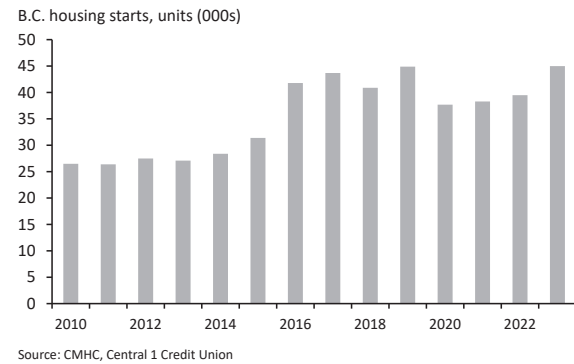
Despite sectoral challenges, improved business conditions, rising exports and stronger commodity prices will drive a strong rebound in non-residential investment. Firms held back during the pandemic, with a large number closing temporarily due to restrictions or lost revenue, while others conserved cash amidst an uncertain demand environment. Growth of more than 10 per cent is expected for machinery and equipment and building investment this year. Major projects across the province which supported growth heading into the pandemic will remain supportive. Government investment is estimated to have dipped modestly last year but is expected to hold steady amidst significant investments in transportation, schools and hospitals.

Housing market to remain strong

The surprisingly robust housing market activity is likely to continue. MLS® sales defied gravity last year and record high sales continue, fueled by low borrowing costs and preference shifts by households looking for more space and look towards suburban and smaller urban markets. Prices have surged as high demand and low inventories propel values. Sales are anticipated to partly normalize but annual sales are expected to rise by 20 per cent in 2021 before slipping thereafter. Average prices are forecast to rise 10 per cent this year with a moderating growth trend thereafter.

Residential investment spending declined in 2020 due to a sharp decline in housing starts. Improvement is expected this year and next as starts rise, although holding below 40,000 annual units until 2023. Strong resale market demand is expected to lift pre-sale activity, while a rebound in population growth also contributes to a sharper gain in 2023. Residential investment climbs two per cent this year followed by accelerating gains of four and six per cent thereafter.

Residential investment to climb on increased housing starts



Labour market

Improved labour market since the spring provides a solid launchpad for employment growth this year. Average employment is forecast to rise 4.7 per cent, with growth sliding to 3.2 per cent in 2022. For most sectors, employment returns to pre-pandemic levels this year if not already to align with broader trends in economic activity. The main drags will remain the most impacted sectors related to tourism and high-touch segments, including accommodations, foodservices, arts, entertainment and recreation.

B.C.'s unemployment rate fell to 7.2 per cent by year-end 2020. While softer employment gains in January and higher labour force participation lifted levels to eight per cent, levels are forecast to average near seven per cent this year. Unemployed individuals will continue to be supported by government income supports. Downward pressure on the unemployment rate is expected through the forecast period with weak population growth over the coming year contributing to weaker labour force growth. The average unemployment declines to near five per cent through the forecast period.

Population growth to rebound after pandemic downturn

Slow population growth will continue into 2022-23. The global pandemic has largely paused inflows to the country as the weak economy, health fears and remote learning delay entry of newcomers. Given the state of the pandemic and border restrictions, weak international immigration is likely to continue into 2022. A push from the federal government and increased intake targets push population growth trends higher later in the forecast period. Interprovincial migration is expected to remain positive, reflecting demand for workers at major projects, while retirements and lifestyle demand continues to attract Canadians from other regions to B.C.

COVID-19 risk to outlook

This outlook depends on the continued management of the second wave and any subsequent waves of COVID-19 and a continued vaccine rollout. At the time of writing, about 224,354 [vaccine doses](#) have been administered in the province, with roughly three per cent of the population receiving at least the first of two doses. B.C. is currently in Phase 1 of its [vaccine schedule](#), which targets populations with high risk of severe illness. Phase 1 is focused on long-term care facilities, including residents and staff and health care workers caring for COVID-19 patients. Phase 2, which spans from February through March, targets elderly individuals 80 and above, seniors in indigenous communities, hospital staff, other medical staff and vulnerable populations. General immunizations are scheduled from April through September.

Vaccine deployment is expected to accelerate. The federal government has announced an increase in the pace of vaccine deliveries and new supplies, which mitigates but does not eliminate the risk of delay. Secondly, mutated variants are increasingly prevalent and higher transmission is a risk for health systems if the spread accelerates. This could lead to further health and economic restrictions due to a third wave and disrupt the economic recovery.

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B.C. Forecast Table

	2017	2018	2019	2020	2021	2022	2023
GDP at market prices	7.0	4.9	4.4	-3.7	7.4	6.1	4.7
Real GDP, expenditure-based	3.8	2.7	2.7	-5.0	4.2	4.5	2.9
Household consumption	4.8	2.8	1.7	-5.0	4.7	4.1	3.0
Government expenditure	2.2	2.5	3.1	1.3	1.0	0.8	1.5
Government capital formation	8.4	9.7	3.9	-3.5	1.5	5.4	1.3
Business capital formation	4.3	0.6	9.3	-10.2	7.2	9.0	4.8
Residential structures	0.2	-2.5	-1.5	-4.2	1.7	4.0	7.1
Machinery and equipment	3.8	5.3	0.3	-17.6	11.4	9.1	5.1
Non-residential structures	12.9	1.9	35.3	-15.4	12.5	14.2	1.7
Final domestic demand	4.2	2.5	3.4	-4.8	4.3	4.4	3.1
Exports	2.8	3.5	0.9	-8.2	6.7	7.2	2.3
Imports	5.2	3.3	2.7	-7.2	6.1	5.3	3.0
Net exports, \$2007 bil.	-21.8	-22.2	-24.7	-24.0	-24.9	-24.3	-25.8
Employment	3.7	1.1	2.6	-6.6	4.7	3.2	2.8
Unemployment rate (%)	5.1	4.7	4.7	9.2	7.1	5.4	4.9
Personal income	5.8	3.2	6.2	7.4	-4.0	5.3	3.7
Disposable income	6.8	2.0	6.2	12.8	-6.3	4.7	2.6
Net operating surplus: Corporations	18.6	2.0	-7.1	-10.8	-1.7	6.2	3.1
CPI	2.1	2.7	2.3	1.0	1.7	1.9	1.8
Retail sales	9.3	2.0	0.6	1.2	5.1	5.7	4.4
Housing starts, 000s	43.7	40.9	44.9	37.7	38.3	39.5	45.0
Population Growth (%)	1.4	1.6	1.6	1.1	0.4	1.1	1.7
Key External Forecasts							
U.S. Real GDP	2.4	2.9	2.3	-3.5	4.8	4.0	2.3
Canada Real GDP	3.1	2.3	1.9	-5.5	4.3	4.8	3.0
European Union Real GDP	2.7	1.9	1.2	-6.8	4.8	3.9	2.2
China Real GDP	6.0	6.9	6.1	1.3	8.2	5.5	4.9
Japan Real GDP	2.2	0.3	0.8	-5.5	3.0	1.7	0.9
Canada 3-month t-bill, %	0.7	1.4	1.7	0.5	0.3	0.3	0.5
Canada GoC long-term Bond, %	2.2	2.3	1.7	1.0	1.1	1.3	1.8
U.S.-Canada Exchange Rate, cents/dollar	77.1	77.2	75.4	74.6	77.0	77.0	77.1
Crude Oil WTI USD\$ per barrel	50.9	64.9	57.0	38.5	51.0	53.0	56.0
Henry Hub Natural Gas Price, US\$ per mmbtu	3.0	3.2	2.6	2.0	2.9	3.0	3.0

Terms

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