



Economic
Development

City of Richmond

Quarterly Economic Report

2018 | Q2



Up-to-date statistics and analysis on key economic indicators including housing and development, tourism and trade, business growth, commercial space and more.



businessinrichmond.ca



economicdev@richmond.ca



604-247-4923



@RichmondEDO



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Q2 2018 Key Economic Indicators



The Bank of Canada rate is expected to increase to **2.25%** by the end of 2019.



The unemployment rate in Metro Vancouver **dropped by 16%** over the same period last year.



Year-to-date housing starts in Richmond more than doubled over 2017, increased by **60%**.



Richmond home sales declined by **27%** in the first half of 2018.



The value of construction activity in the first half of 2018 totalled **\$485 million**.



The industrial vacancy rate in Richmond is at a low **3.1%**.



The office vacancy in Richmond city-wide is **9%** and close to nil in the City Center.



There were **982** new business licences issued in the first half of 2018.



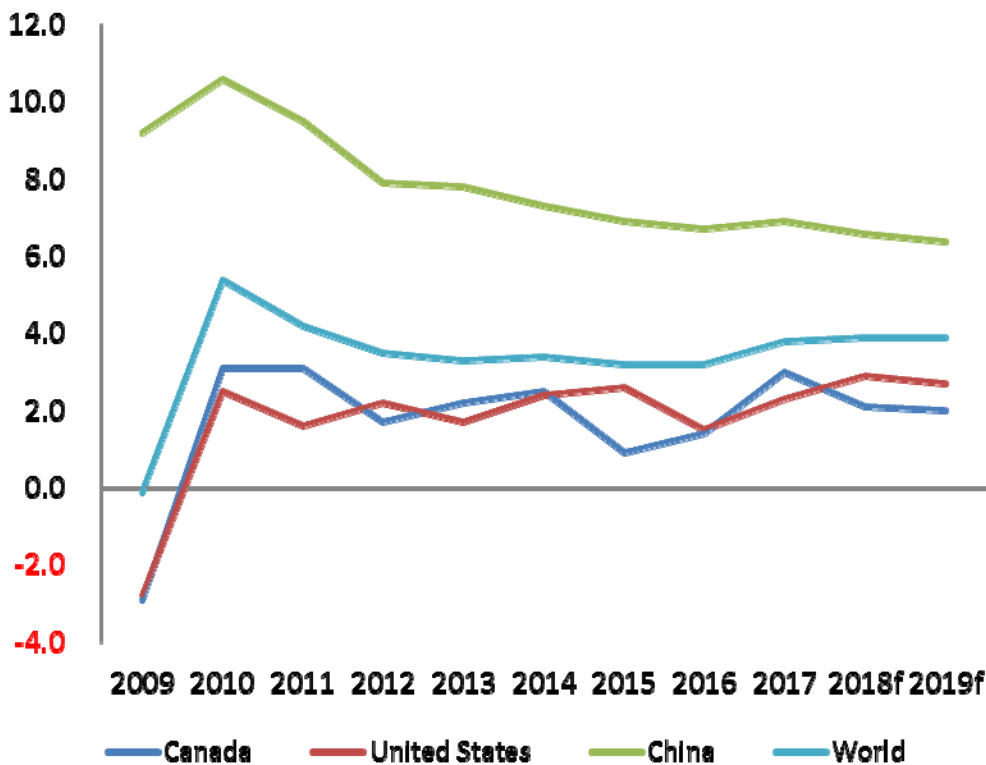
12.4 million passengers travelled through YVR in the first half of 2018.

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Macroeconomic Indicators & Forecast

1. Global Growth – Real GDP % Change¹



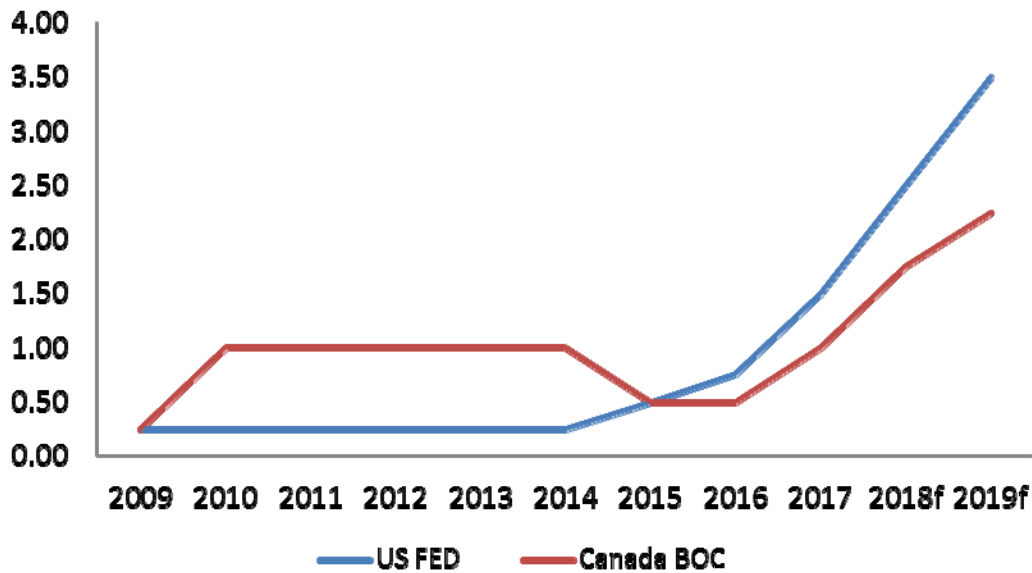
Source: International Monetary Fund

- Global growth in Gross Domestic Product (GDP) is projected to reach 3.9% in both 2018 and 2019, unchanged from the forecast in the International Monetary Fund's World Economic Outlook from April 2018.
- The GDP growth forecast for the U.S. and Canada also remains unchanged, though downside risks are increasing amid escalating trade and geopolitical tensions, and the resulting uncertainty for business investments and financial markets.
- In Canada, GDP growth is forecasted at 2.1% in 2018 and 2.0% in 2019. The U.S. economy is expected to expand by 2.9% and 2.7% in the same periods.
- GDP growth for China is forecasted at 6.6% and 6.4% in 2018 and 2019, respectively.




Canada's economy is forecasted to grow by a more subdued **2.1%** in **2018**.

2. Interest Rates – US and Canadian Overnight Central Bank Rate % at Year-End²



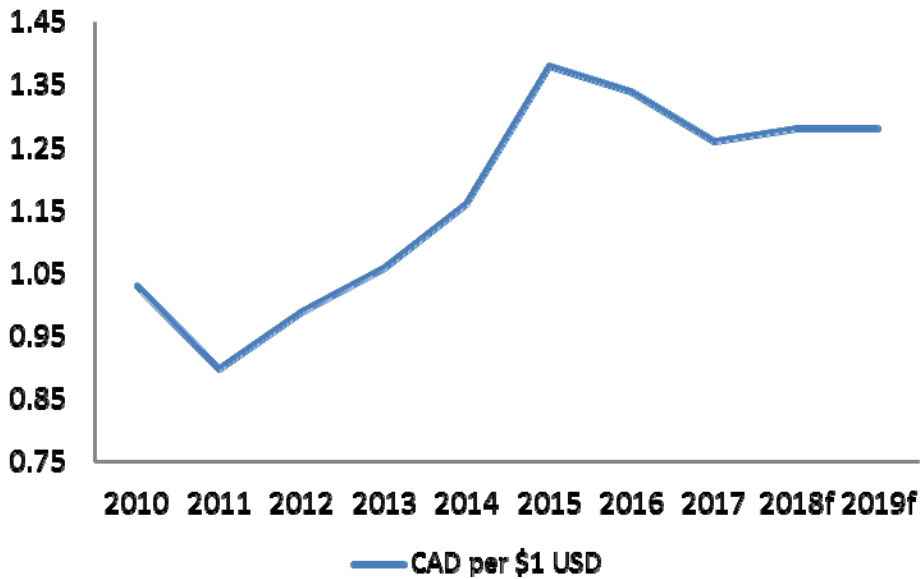
Source: US Federal Reserve, Bank of Canada and Royal Bank Research

- As the U.S. and Canadian economies continue to perform well, both central banks have been lessening aggressive monetary policy support previously in place to spur the economic recovery.
- The U.S. Federal Reserve continued its course of gradual policy normalization and raised the overnight rate again in Q2 2018, ending the quarter at 2.0%, the highest level since 2008. Citing strong economic conditions including job creation, wage growth and consumer spending, the rate is forecasted to increase further to 3.5% by the end of 2019.
- Economic conditions in Canada throughout the first half of the year were balanced by an acceleration in business investment which offset the drop in housing market activity. As a result, the Bank of Canada (BoC) left the policy interest rate unchanged in Q2 2018, at 1.25%.
- The BoC overnight lending rate is expected to increase to 2.25% by the end of 2019, in line with the country’s current growth trajectory and lessening need for monetary policy stimulus.



The Bank of Canada rate is expected to increase to 2.25% by the end of 2019

3. Exchange Rates – USD/CAD at Year-End³



Source: Royal Bank of Canada

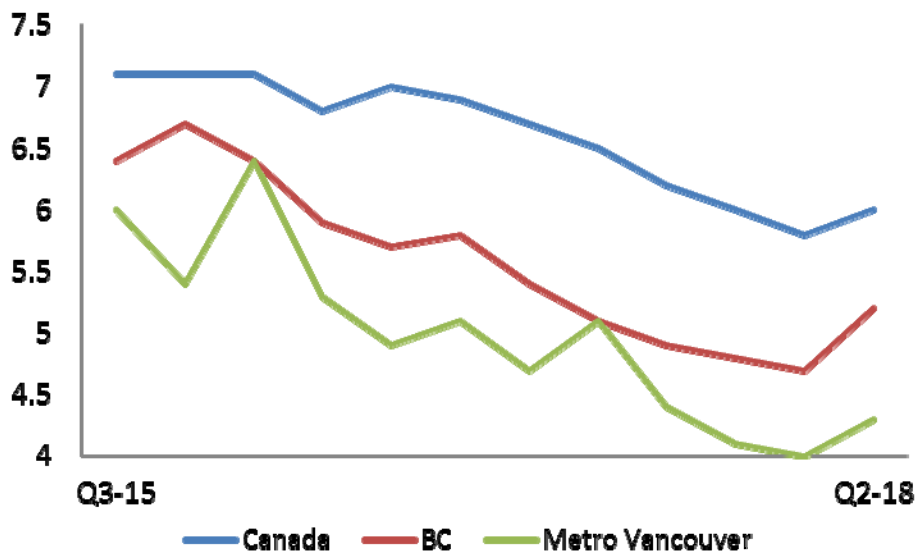
- A national economy performing at capacity caused the US currency to continue to strengthen in Q2 2018.
- Strong data out of Canada also influenced the position of the Canadian dollar (CAD). It was the best performing currency against the US dollar (USD) because it fell only 2.6% against the USD.
- The USD/CAD exchange rate ended Q2 2018 at \$1.31 CAD per \$1 USD. It is expected to end 2019 at \$1.28 CAD per \$1 USD in anticipation of continued oil price stabilization, economic growth and resulting federal policy rate hikes.
- Downside risks to the loonie remain and include uncertainty over NAFTA renegotiations and broader trade tensions sparked by the U.S.
- A relatively weak Canadian dollar could continue to benefit domestic exporters of goods and services, as well as sectors such as film, technology and tourism.



The foreign exchange rate was **\$1.32 CAD per \$1 USD** at the end of Q2 2018.

Regional & Local Economic Activity Indicators

4. Unemployment⁴



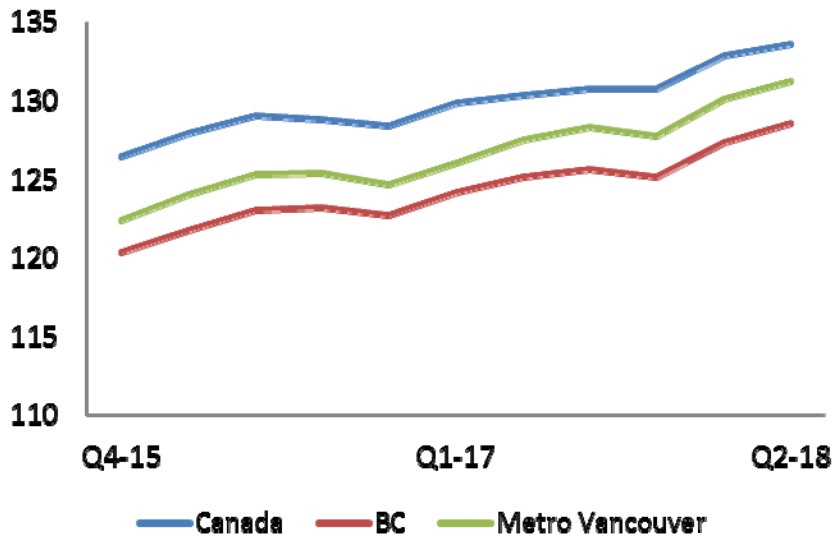
Source: BC Statistics; Statistics Canada

- National and regional economies continue to operate at close to full employment levels throughout the first half of 2018. The jobless rate in Canada increased in Q2 2018, mainly due to growth in the overall labour force by nearly 76,000 workers.
- Unemployment rates ended the quarter at a low 6.0%, 5.2%, and 4.3% for Canada, B.C. and Metro Vancouver respectively. This represents a decrease in unemployment rates by 7.7% and 16% for Canada and Metro Vancouver, respectively, over the same quarter in 2017.
- Over the same period, B.C.’s unemployment rate increased by 2.0% but remains the lowest in the country.
- This prolonged period of strong employment growth is expected to put upward pressure on wages as companies compete for skilled employees.



The unemployment rate in Metro Vancouver dropped by 16% over the same period last year.

5. Consumer Price Index (CPI – 2002=100)



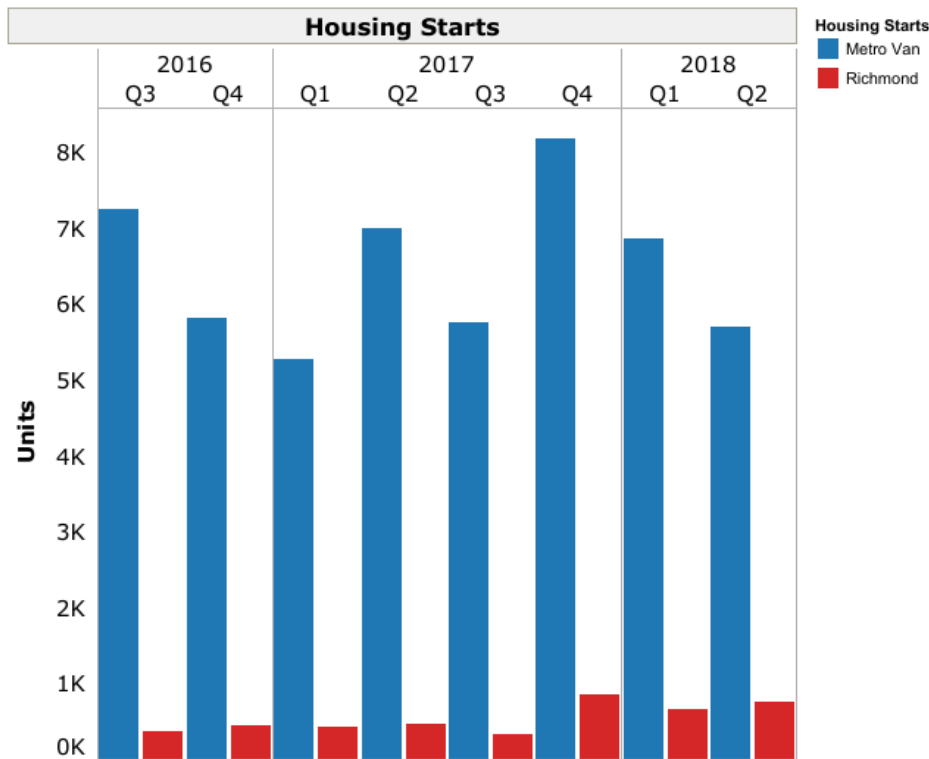
Source: BC Statistics

- Inflation, as measured by Consumer Price Index (CPI), climbed again in Metro Vancouver, B.C. and Canada in the second quarter of 2018, with rising energy prices, interest rates and minimum wages contributing to the increase.
- The country's annual inflation rate rose by 2.5% in June as consumer prices grew at their fastest pace in more than six years.
- At the end of Q2 2018 the CPI also climbed by 3.0% in Metro Vancouver and 2.7% in British Columbia, compared to the same period last year.
- The BoC continues to monitor inflation closely, and increases to its policy interest rate are intended to maintain the CPI rate of increase at the midpoint between 1 and 3 percent.



Inflation climbed by 3% in Metro Vancouver, 2.7% in British Columbia and 2.5% in Canada.

6. Housing Starts⁵



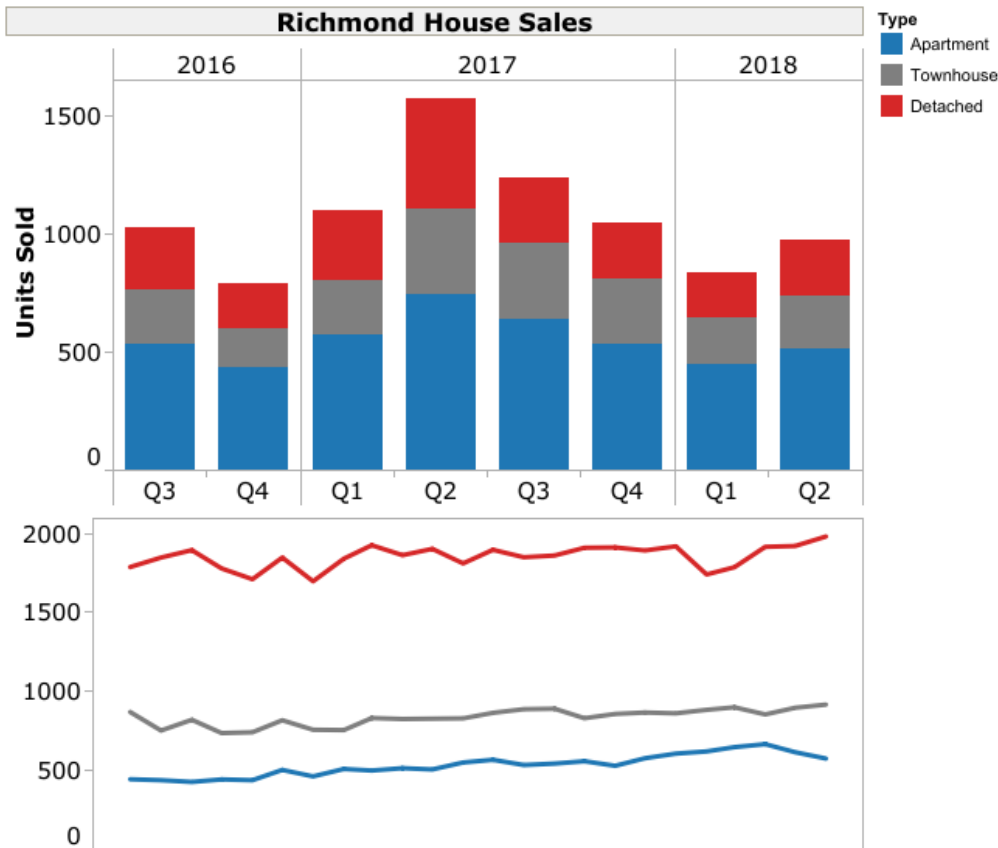
Source: Canada Mortgage and Housing Corporation

- Construction of new homes in Richmond, particularly condos and townhouses, continued to surge in the second quarter of 2018.
- Housing starts in Richmond increased by 60% in the first half of 2018, compared to the same period in 2017.
- This is in stark contrast to regional totals, where housing starts slowed in Q2 over Q1. Overall, 2018 year-to-date housing starts in Metro Vancouver increased by a mere 2.4% over the same period last year.
- There were 12,562 housing starts in Metro Vancouver throughout the first six months of 2018, and 1,413 in Richmond during the same period.



Year-to-date housing starts in Richmond more than doubled over 2017, increased by 60%.

7. Richmond House Sales and Prices⁶



Source: CMHC & REBGV

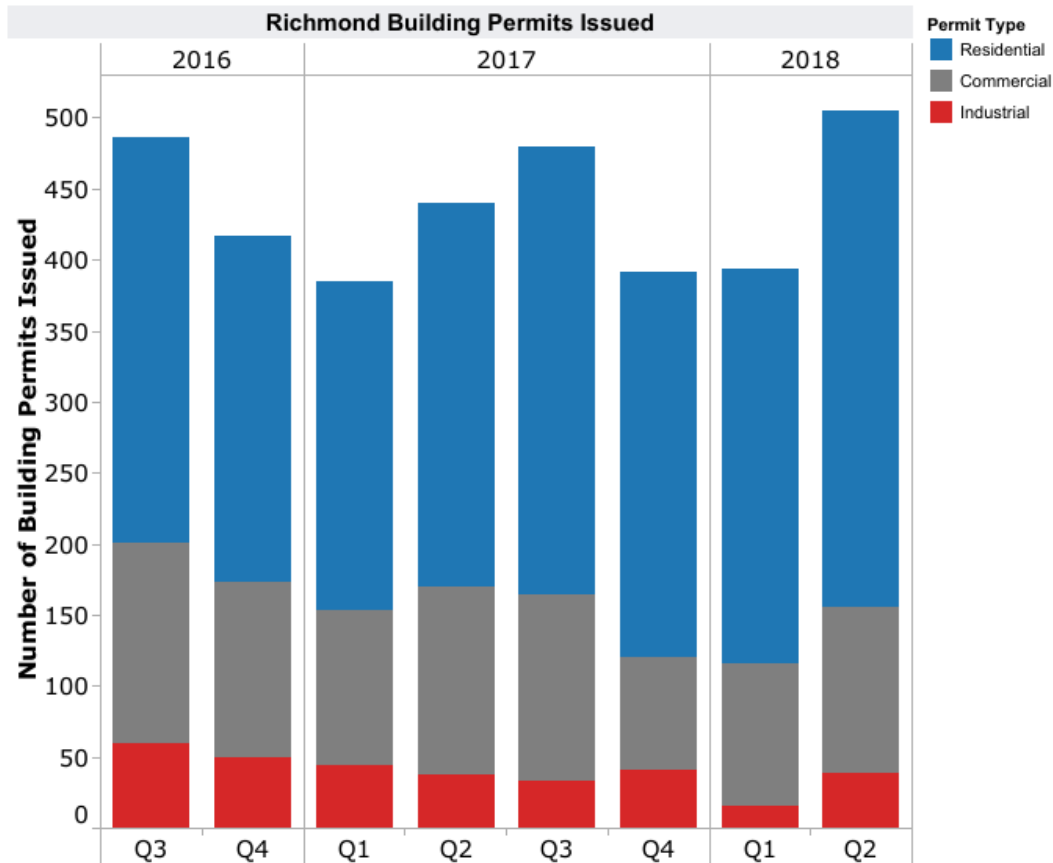
- 1,810 homes were sold in Richmond throughout the first half of 2018, a 27% decline over the same period last year. Tightened mortgage rules, a foreign home buyer tax and other policy measures have contributed to this slowdown.
- The detached home category saw the biggest decrease in sales, at 44%, as this category entered a buyer's market. Apartment and townhouse sales also decreased, by 27% and 29% respectively, those these markets are still in favour of the seller.
- In Q2 2018 the average sale price of homes in all categories increased year over year: 9% for detached homes, 11% for townhouses and 5% for apartments.
- At the end of Q2 2018 the average price of a detached home in Richmond was \$1.98 million, while a townhouse was \$917,000 and an apartment was \$576,000.



Richmond home sales declined by 27% in the first half of 2018.

8. Construction Activity – Richmond⁷

a) Building Permits



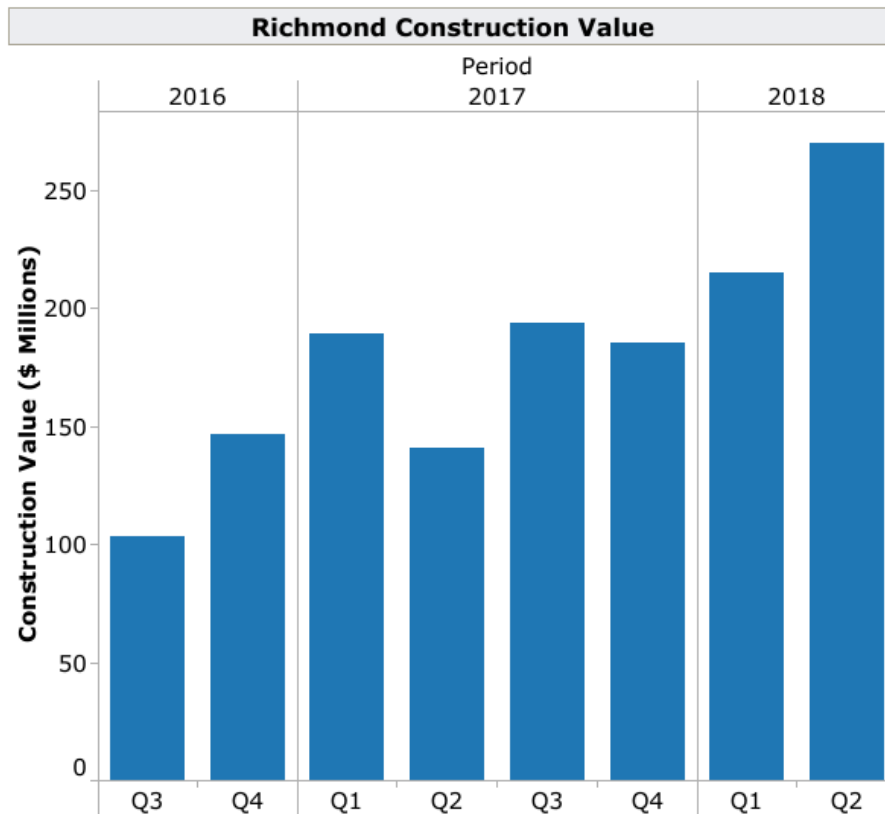
Source: City of Richmond

- The total number of building permits issued in Richmond throughout the first half of 2018 increased by 9.0% over the same period in 2017.
- Residential construction was the only category that contributed to this increase, where year-to-date new home construction increased 25% over the same period last year.
- Commercial and industrial building permit activity declined in the same period, by 10% and 33% respectively.
- In total there were 628 residential building permits, 217 commercial building permits, and 54 industrial building permits issued in the first half of 2018.



The number of residential building permits issued in Q2 2018 increased by 30%.

b) Construction Value



Source: City of Richmond

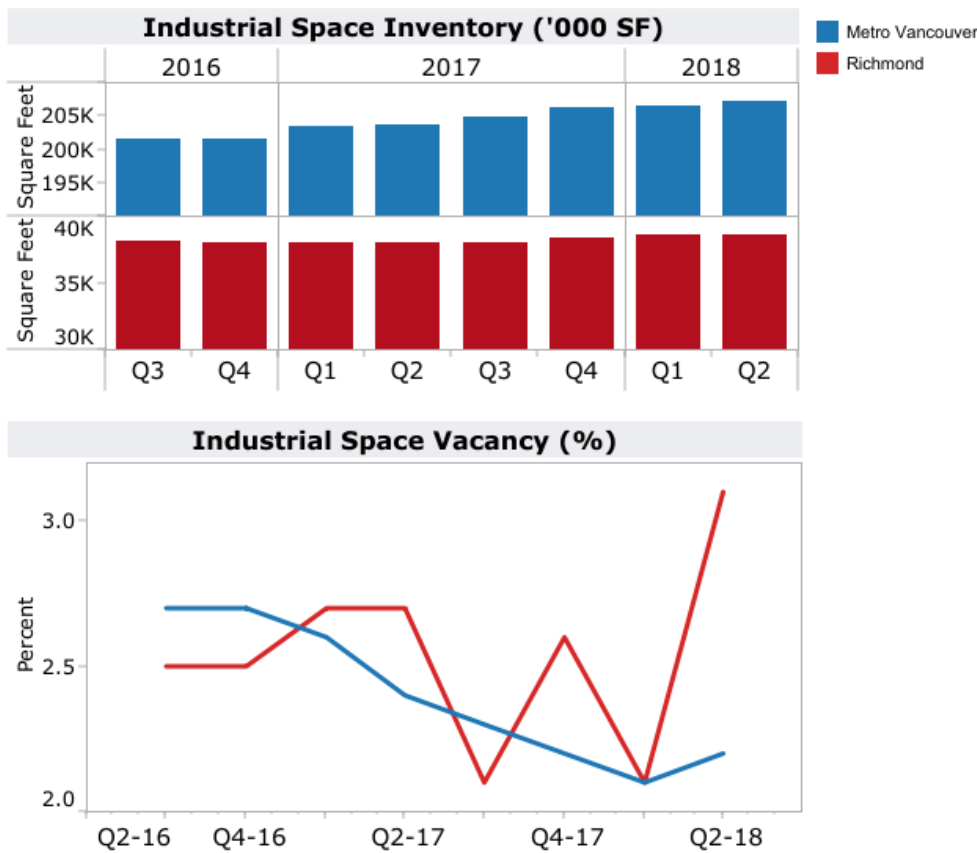
- The total value of construction activity throughout Richmond in the first half of 2018 totaled \$485 million.
- This is on track to surpass the record values of \$716 million realized in 2016 and \$709 million in 2017.
- In the second quarter of 2018 alone, the value of construction activity in Richmond increased by a significant 92% over the same period last year.
- This was mainly attributed to a surge in multi-family residential construction activity that occurred prior to a planned average 2.2% increase in development cost charges in May 2018.



The value of construction activity in the first half of 2018 totalled **\$485 million**.

9. Commercial Space⁸

a) Industrial Space



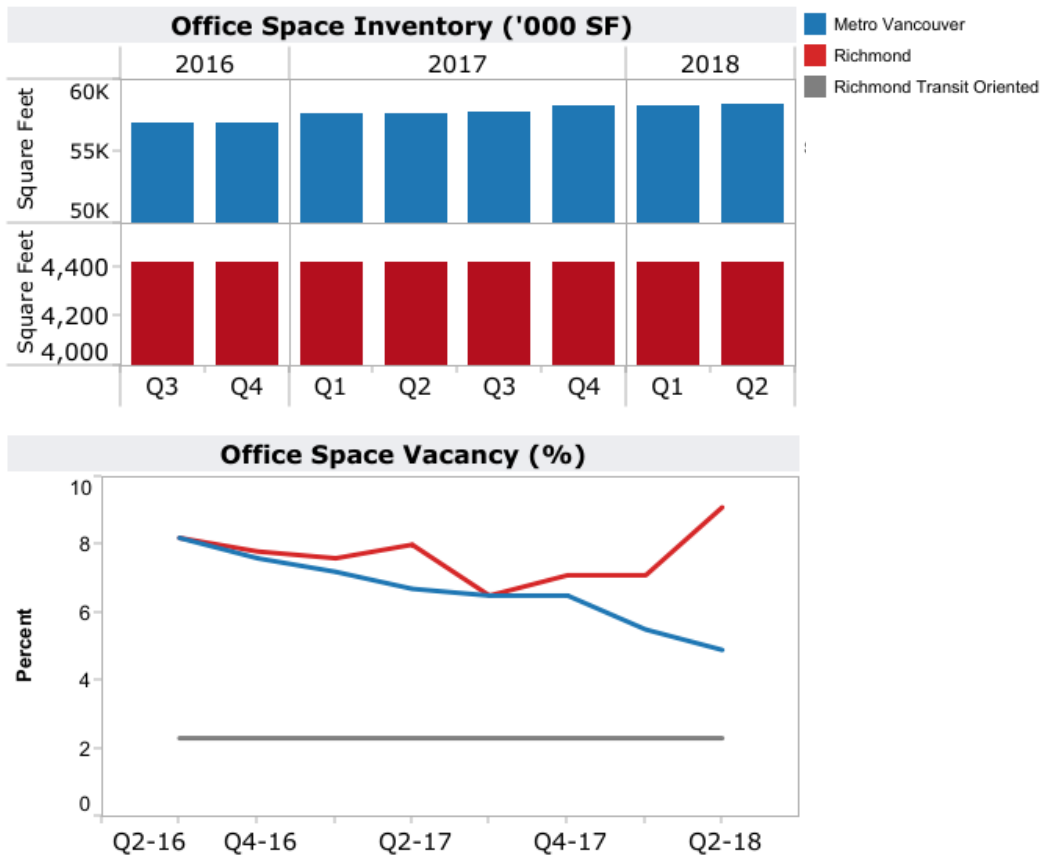
Source: Cushman & Wakefield

- Despite a net addition of 545,000 square feet of industrial space in Richmond over the same period last year, high demand and absorption has kept the industrial vacancy rate low. It ended Q2 2018 at 3.1%.
- Meanwhile the vacancy rate in Metro Vancouver decreased again year over year, by 8.3%, and sits at 2.2%.
- With this acute shortage of industrial space, Richmond and Metro Vancouver are experiencing difficulty accommodating new large users as well as the expansion of existing businesses.
- At 38.5 million square feet, Richmond has the largest inventory of industrial space in the region followed by Surrey (35 million), Burnaby (30 million), Delta (24 million), and Vancouver (24 million).



The industrial vacancy rate in Richmond is at a low 3.1%.

b) Office Space



Source: Cushman & Wakefield

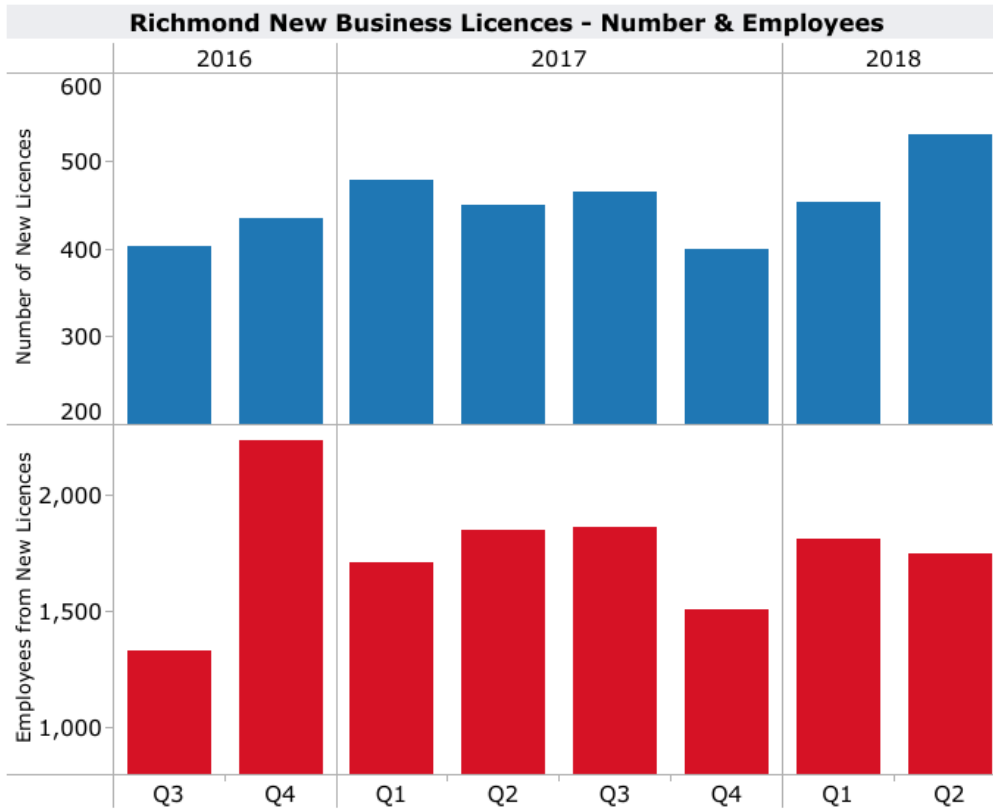
- The overall office vacancy rate in Richmond increased by 13% over the same period last year. It is now 9% city-wide and close to nil in the City Center.
- Demand for office space around rapid transit stations is increasing as companies seek amenity rich locations that aid their talent attraction and retention efforts amidst a constrained labour market. The uptick in the Richmond office vacancy rate is likely due to companies relocating to this type of space in other communities.
- High demand throughout Metro Vancouver caused the office vacancy rate to decline by 22% year-over-year and ended Q2 2018 at a low 4.9%.



The office vacancy in Richmond city-wide is 9% and close to nil in the City Center.

10. Business Growth – Richmond⁹

a) New Business Licences – Issued & Number of Employees



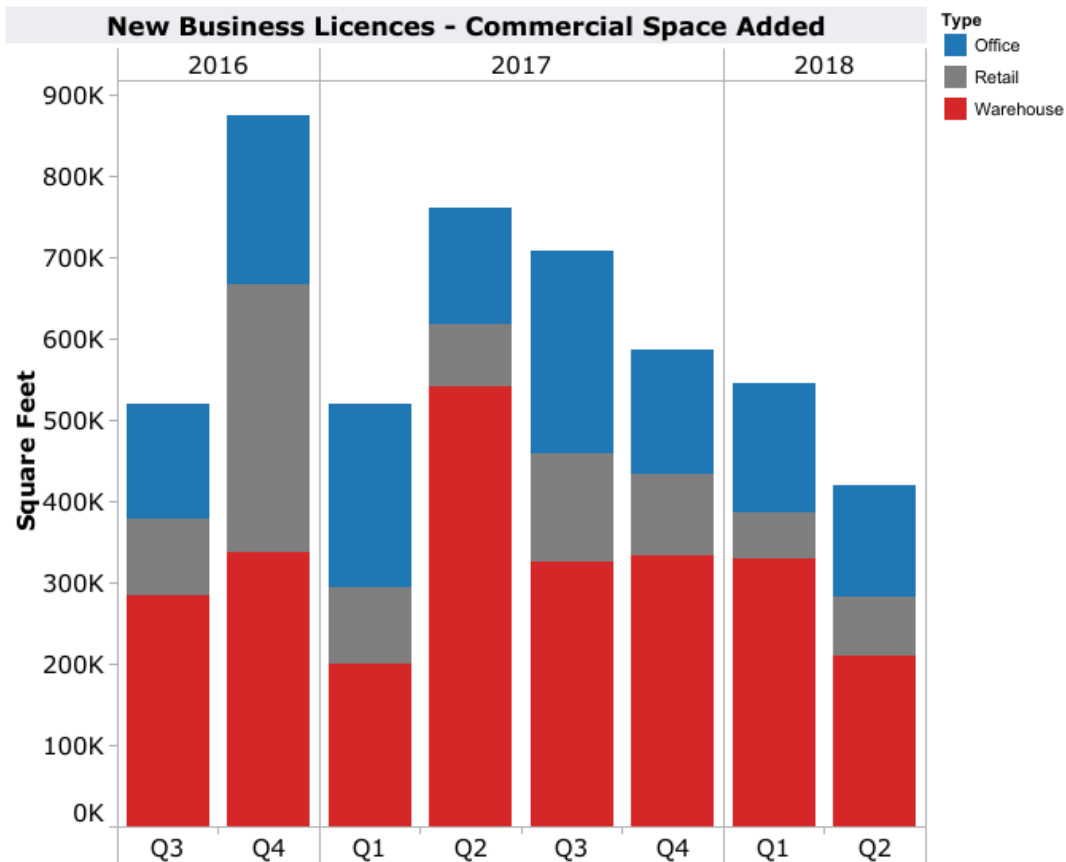
Source: City of Richmond

- There were 982 new business licences issued in Richmond during the first half of 2018, an increase of 6% over the same period in 2017.
- The addition of 3,556 jobs was attributed to these new businesses.



There were **982** new business licences issued in the first half of 2018.

b) New Business Licences – Commercial Space Added



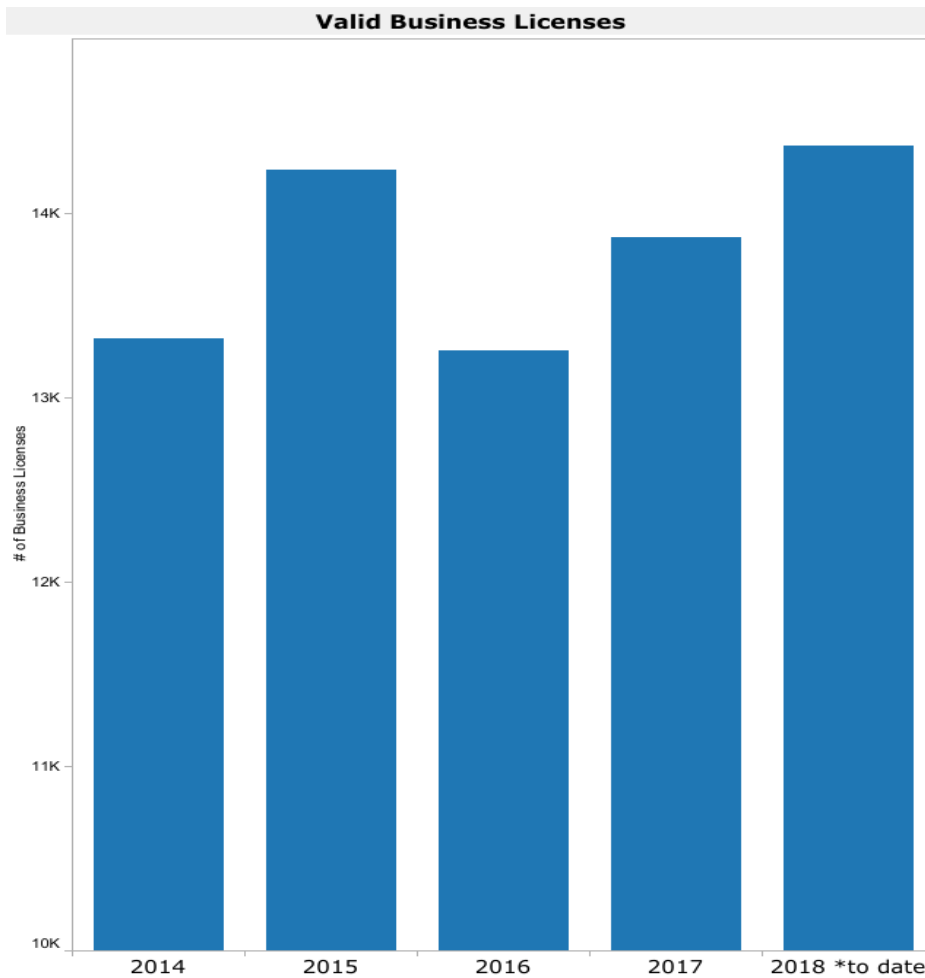
Source: City of Richmond

- Almost 1 million square feet of commercial space absorption was tied to the new business licences issued throughout the first half of 2018.
- As industrial users typically require more space, it is not surprising that 56% of total commercial space absorption was warehouse-type industrial space.
- One third of commercial absorption in the first half of 2018 was tied to office-based businesses. Only 13% of commercial space absorption throughout this period was from retail businesses.



56% of commercial space absorbed by new businesses was by warehouse-based industrial users.

c) Valid Business Licences



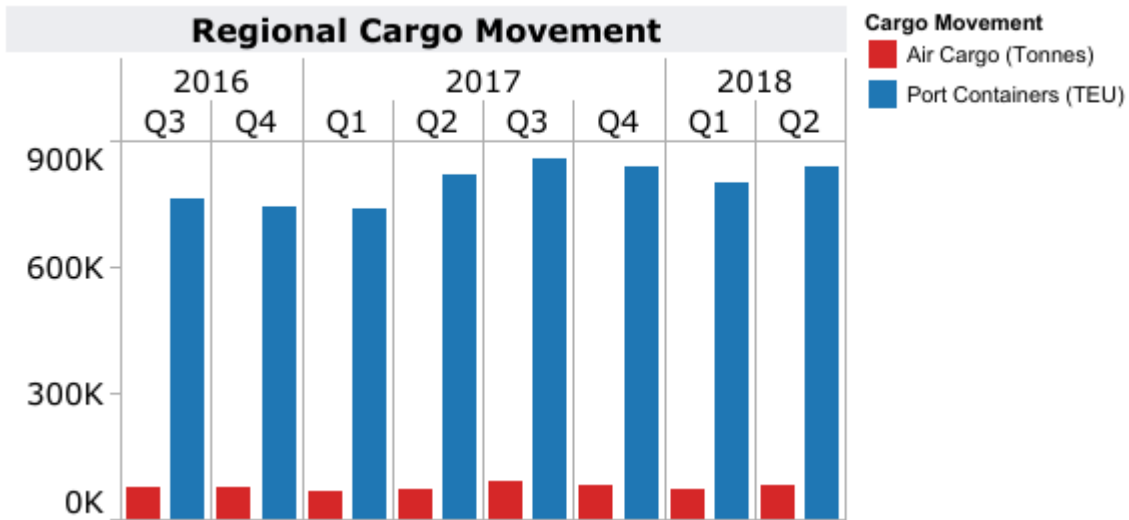
- There were 14,368 active business licenses issued in Richmond at the end of 2018.
- This is an increase of 3% over the same period last year.



There were **14,368** active business licences in Richmond at the end of Q2 2018.


11. Goods and People Movement

a) Regional Cargo Movement¹⁰



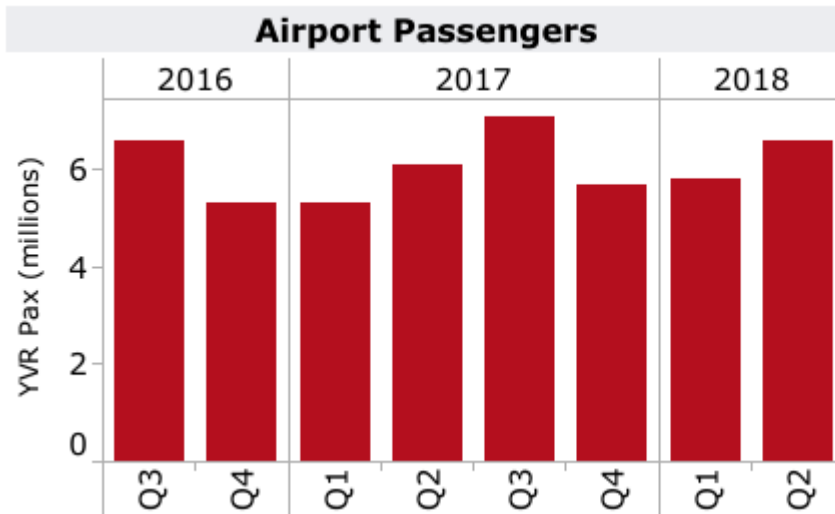
Source: Port of Vancouver, YVR

- After posting a year of strong growth in 2017, regional cargo data indicators of regional trade activity continued to demonstrate solid year over year growth in Q2 2018.
- The Port of Vancouver hit a record shipping container volume and in the first half of 2018 container movements as measured by Twenty-Foot Equivalent Units (TEUs) increased by 5% over the same period last year.
- 153,050 tonnes of air cargo moved through the Vancouver International Airport (YVR) in the first 6 months of 2018, an 8% increase over the same period last year.



Air cargo increased by 8% and container movements increased by 5%.

b) Airport Passengers¹¹



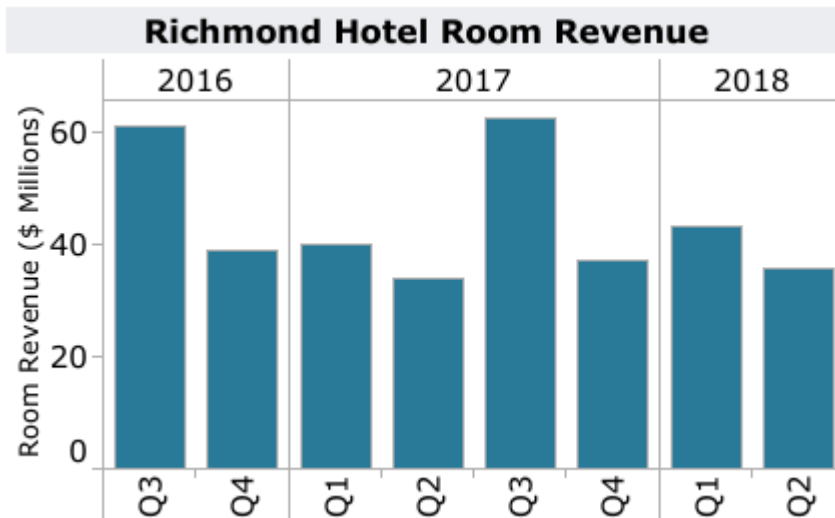
Source: Vancouver Airport Authority

- 2017 was another record-breaking year of growth for YVR. The airport saw 24.2 million passengers throughout the year, an 8.4% increase over 2016.
- 2018 is on track to be another record breaking year; passenger traffic throughout the first half of the year increased by 8.8% to 12.4 million passengers, over the same period in 2017.



12.4 million passengers travelled through YVR in the first half of 2018.

c) Richmond Hotel Room Revenue¹²



Source: City of Richmond; *March figures are excluded from Q1 2017 and Q1 2018.

- \$78.5 million was collected in hotel room revenue throughout the first five months of 2018 in Richmond, an increase of 6.2% over the same period last year.



Throughout the first 5 months of 2018, **\$78.5 million** was collected in hotel room revenue.

Data Table

Macroeconomic Indicators & Forecast

1) Real GDP - % Change	2016	2017	Change	2018f	2019f
Canada	1.4	3.0	114.3%	2.1	2.0
United States	1.5	2.3	53.3%	2.9	2.7
China	6.7	6.9	3.0%	6.6	6.4
World	3.2	3.8	18.8%	3.9	3.9
2) Interest Rates (at YE)	2016	2017	Change	2018f	2019f
Bank of Canada	0.50	1.00	100.0%	1.75	2.25
US FED	0.75	1.50	100.0%	2.50	3.50
3) Exchange Rate (at YE)	2016	2017	Change	2018f	2019f
CAD per \$1 USD	1.34	1.26	-6.0%	1.28	1.28

Regional and Local Market Indicators

4) Unemployment (%)	Q2-2018	Q1-2018	Change	Q2-2017	Change	
Canada	6	5.8	3.4%	6.5	-7.7%	
BC	5.2	4.7	10.6%	5.1	2.0%	
Metro Vancouver	4.3	4	7.5%	5.1	-15.7%	
5) CPI (2002=100)	Q2-2018	Q1-2018	Change	Q2-2017	Change	
Canada	133.6	132.9	0.5%	130.4	2.5%	
BC	128.6	127.4	0.9%	125.2	2.7%	
Metro Vancouver	131.3	130.1	0.9%	127.5	3.0%	
6) Housing Starts (Units)	Q2-2018	Q2-2017	Change	YTD-2018	YTD-2017	Change
Starts - Metro Vancouver	5698	6931	-17.8%	12562	12273	2.4%
Starts - Richmond	753	462	63.0%	1413	884	59.8%
7) Richmond Residential Sales Activity	Q2-2018	Q2-2017	Change	YTD-2018	YTD-2017	Change
Sales - Detached	234	470	-50.2%	429	768	-44.1%
Sales - Townhouse	222	362	-38.7%	416	587	-29.1%
Sales - Apartment	516	740	-30.3%	965	1315	-26.6%
Sales Total/Average Change	972	1572	-38.2%	1810	2670	-32.2%
Average Price - Detached (\$ at QE)	1,980,000	1,810,000	9.4%	N/A	N/A	N/A
Average Price - Townhouse (\$ at QE)	917,000	830,000	10.5%	N/A	N/A	N/A
Average Price - Apartment (\$ at QE)	576,000	551,000	4.5%	N/A	N/A	N/A

8) Richmond Building Permits	Q2-2018	Q2-2017	Change	YTD-2018	YTD-2017	Change
Building Permits - Residential	350	270	29.6%	628	502	25.1%
Building Permits - Commercial	116	133	-12.8%	217	242	-10.3%
Building Permits - Industrial	39	37	5.4%	54	81	-33.3%
Building Permits Total	505	440	14.8%	899	825	9.0%
Construction Value (\$ million)	269.8	140.4	92.2%	484.7	329.7	47.0%

Regional and Local Market Indicators (continued)

9) Commercial Space (at QE)	Richmond			Metro Vancouver		
	Q2-2018	Q2-2017	Change	Q2-2018	Q2-2017	Change
Office Vacancy (%)	9.0	8.0	12.5%	4.9	6.3	-22.2%
Transit Oriented Office Vacancy (%)	2.3	2.3	0.0%	13.6	13.6	0.0%
Office Inventory (000 sf)	4419	4419	0.0%	58243	57599	1.1%
Industrial Vacancy (%)	3.1	2.7	14.8%	2.2	2.4	-8.3%
Industrial Inventory (000 sf)	38539	37994	1.4%	207097	203535	1.8%
10) Richmond Business Growth	Q2-2018	Q2-2017	Change	YTD-2018	YTD-2017	Change
Total Valid Business Licenses	N/A	N/A	N/A	14368	13912	3.3%
New Licenses - Number Issued	529	449	17.8%	982	927	5.9%
New Licenses - Employees	1747	1845	-5.3%	3556	3551	0.1%
New Licenses - Office Added (sf)	137,396	143,711	-4.4%	296,656	370,485	-19.9%
New Licenses - Retail Added (sf)	73,035	76,517	-4.6%	129,665	169,241	-23.4%
New Licenses - Industrial Added (sf)	208,990	540,735	-61.4%	538,743	741,446	-27.3%
Total Space Added (sf) / Average Change	419,421	760,963	-44.9%	965,064	1,281,172	-24.7%
11) Goods & People Movement	Q2-2018	Q2-2017	Change	YTD-2018	YTD-2017	Change
YVR Air Cargo (tonnes)	80991	73425	10.3%	153050	141488	8.2%
PMV Container Movement (TEUs)	836224	818294	2.2%	1637441	1558534	5.1%
YVR Passengers (million)	6.6	6.1	8.2%	12.4	11.4	8.8%
Richmond Hotel Room Revenue (\$ million)*	35.5	34	4.4%	78.5	73.9	6.2%

Notes:

a) Q indicates quarter-end

b) YTD indicates year to date

* Richmond Hotel Room Revenue for Q2 2017 and 2018 exclude June figures.

List of Sources (last accessed August 1, 2018):

- ¹ International Monetary Fund, World Economic Outlook (July 2018)
- ² US Federal Reserve, Bank of Canada and Royal Bank Research
- ³ Bank of Canada, Monetary Policy Report (April 2018)
- ⁴ Statistics Canada
- ⁵ BC Statistics
- ⁶ Real Estate Board of Greater Vancouver
- ⁷ City of Richmond Building Permits
- ⁸ Cushman & Wakefield Office and Industrial Market Beat Reports
- ⁹ City of Richmond Business Licenses
- ¹⁰ Port of Vancouver Monthly Cargo Statistics
- ¹¹ YVR Monthly Statistics
- ¹¹ City of Richmond Additional Hotel Room Tax Ledger; Destination BC