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HIGHLIGHTS:

- Retail sales edge higher in February
- Manufacturing shipments decline again
- EI counts further decline

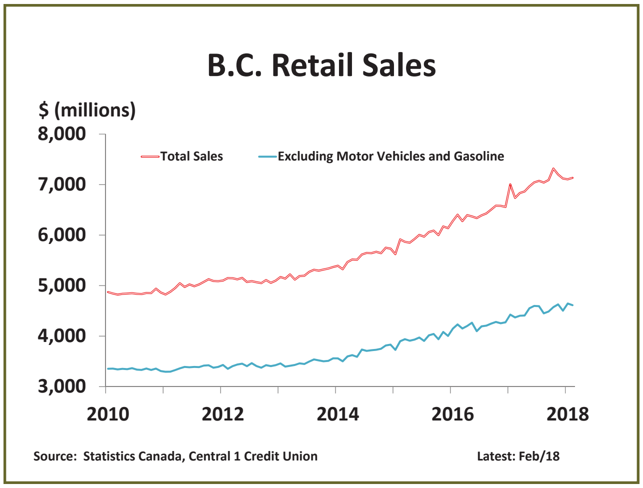
Retail sales edge higher in February after three successive declines

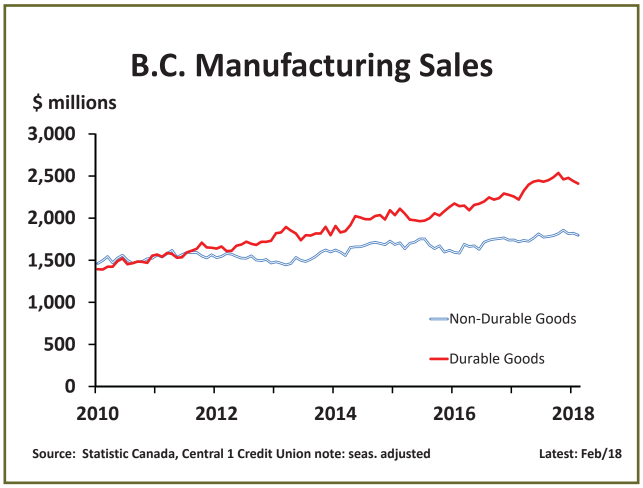
B.C. retail sales picked up in February despite a significant decline in the Vancouver metro region. Total dollar-volume sales rose to $7.13 billion (seasonally-adjusted) in February, up 0.4 per cent from January, which was consistent with the national increase. While this was the first gain since October, recent months' declines primarily reflected a give-back after an October surge. That said, the underlying sales trend has steadied since late in 2017 at a high level.

Year-over-year sales accelerated to a robust 5.9 per cent in February from 1.4 per cent in January. Growth was led by gains by motor vehicle and parts dealers (up five per cent), building materials and gardening (19 per cent), and gasoline stations (up 10 per cent). The latter largely reflects higher prices. Strong performances were also observed for electronics and appliances stores (up 13 per cent).

Despite some early weakness in motor vehicle sales volume after a poor January, year-to-date sales are up a solid 4.7 per cent over two months. Excluding vehicle sales and gasoline, which provides a better indication of underlying consumer demand, sales are 6.5 per cent higher over the period, which is well above the 3.5 per cent national gain. Strong employment growth over the past year and rising wages due to a tight labour market continue to support sales growth.

That said, there are headwinds. Rising interest rates will directly impact vehicle sales, and indirectly impact the housing market via furniture and furnishing demand. Meanwhile, new federal mortgage lending regulations (B-20) have sharply curtailed home sales, and will continue to impact related sales through the remainder of the year, although renovation spending could provide some offset.





Manufacturing shipments decline again, capacity constraints an issue

B.C. manufacturing sales slowed for a fourth consecutive month in February, signaling a sector slowdown following strong upward momentum for most of 2017. Total factory shipments came in at a seasonally-adjusted $4.21 billion, down 1.3 per cent from January. While sales have slipped more than three per cent from October, levels are comfortably ahead of a year ago by nearly seven per cent both on a same-month and year-to-date basis, which exceeded national growth.

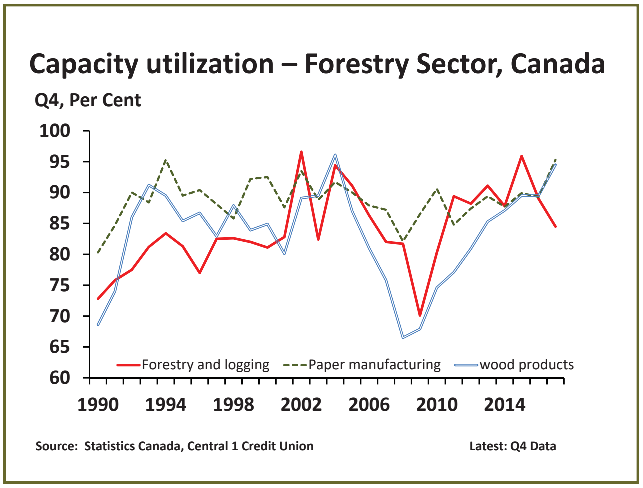
February's monthly decline was led by steep declines in electrical equipment, appliance, and component sales, and transportation and equipment manufacturing, although monthly sales fluctuate. More broadly, the downtrend in manufacturing sales in recent months have been concentrated in the durable goods sector, particularly wood products and primary metals given available information. Declining sales are not necessarily a symptom of weaker demand and could reflect capacity issues. Rail transportation bottlenecks, particularly a shortage of railcars, have constrained export activity of agriculture, forestry and other commodities. The forestry sector is operating roughly at peak capacity with capacity utilization near long-term highs, and inventory is growing as a result. The prospect of a strike at CP Railway could further impact sales.

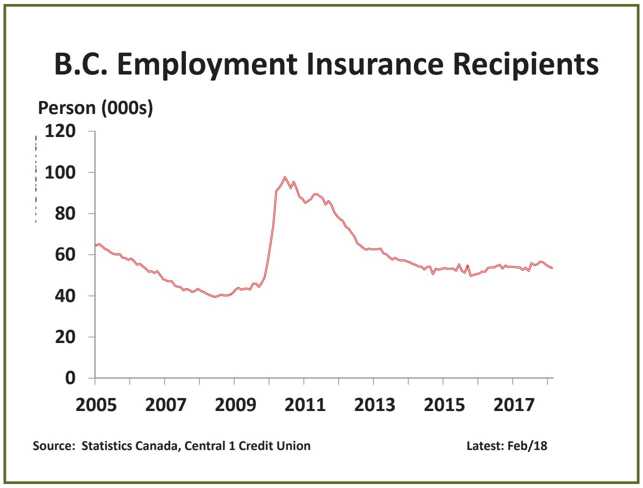
Manufacturing sales continue to trend at a high level despite the pull back, up 7.2 per cent over the first two months. Growth has been led by fabricated metal manufacturing (up 17 per cent), machinery (up 20 per cent) and paper (up 15 per cent). Wood products rose 7.7 per cent. Higher commodity prices vis-à-vis 2017 is one driver of gains.

Sales are forecast to grow five per cent in 2018, down from an eight per cent increase in 2017. Export conditions remain favourable with improving global economic growth, strong lumber demand and pricing, and a competitive dollar. That said, transportation bottlenecks continue, and long-term lumber supply constraints and uncertainty related to U.S. trade policy are offsetting headwinds.

EI counts further decline on tight labour market

The tightening labour market is an important theme for B.C.'s economy this year, observed in low unemployment rates, high job vacancy rates, and rising wages trends. The latest employment insurance (EI) beneficiary counts further underscore this strong environment for workers, and hiring challenges on the part of employers. EI counts continued to trend lower in February, with a seasonally-adjusted 45,370 individuals on the roll. This was down 0.5 per cent from January, and extended a downward trend going back





16 months. Among occupations, counts were little changed from January. Year-over-year, the EI count was down 15 per cent to the lowest since late-2008, which preceded the surge during the financial crisis.

While expiration of benefits contributes to a lower number of beneficiaries over time, current trends reflect a tight labour market and a low unemployment rate. Individuals are having little difficulty securing employment in the current market. The number of initial and renewal climbs continues to trend lower despite a minor uptick over the past two months, and similar to the number of beneficiaries counts are at a multi-year low.

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