B.C. Economic Briefing

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Highlights

- Home sales sluggish in April but negative trend abating
- Retailers post solid sales growth in March
- March manufacturing shipments surge on wood product rebound
- Consumer prices hold firm in April

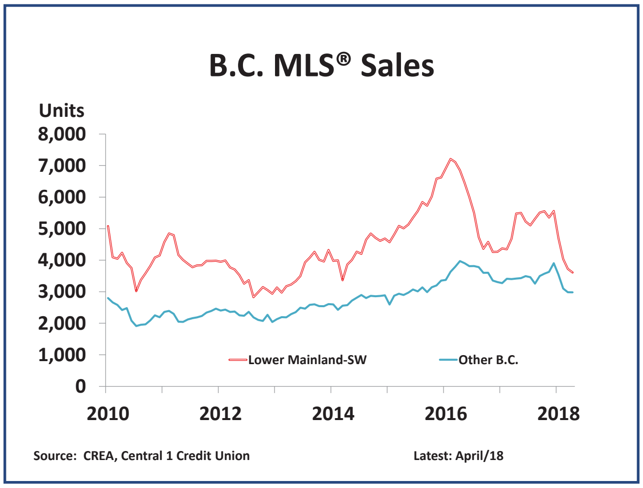
Home sales decline decelerates in April

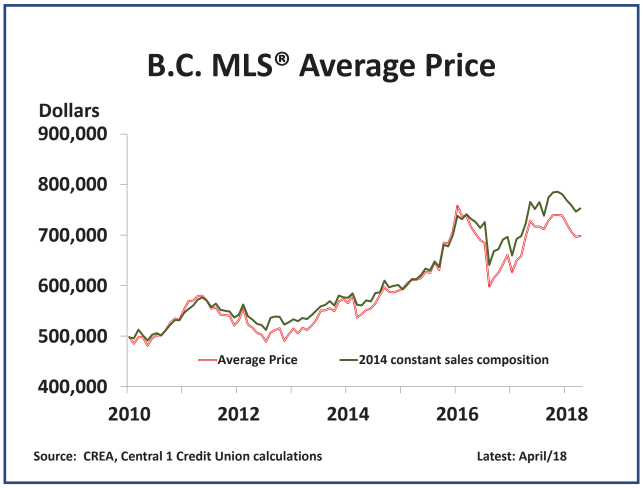
Weaker home sales continued through April but the policy induced slide in sales showed signs of moderating, albeit at low levels, according to the latest MLS® data published by the Canadian Real Estate Association (CREA). B.C. sales fell for the fourth straight month in April to 6,590 seasonally-adjusted units. The 1.8 per cent month-to-month decline compared to a six per cent drop the previous month. Since peaking in the fourth quarter, sales have declined 30 per cent to the lowest since mid-2014 as the market absorbed federal mortgage stress tests that curtailed purchasing power.

Among real estate board areas, sales conditions were mixed. Sales declines were concentrated in the Lower Mainland, Vancouver Island and Okanagan-Mainline real estate board regions, which incidentally, are home to the highest priced markets in the province. The most substantial declines were in the Fraser Valley (down 6.9 per cent), Vancouver Island excluding Victoria (down 6.1 per cent) and Kelowna-anchored Okanagan Mainline (down four per cent). Mild pullbacks were recorded in Victoria and the Greater Vancouver real estate board areas. In contrast, sales rebounded in Kamloops, South Okanagan and northern regions.

CREA's estimates of a sales decline in the Lower Mainland contrasts with our calculation of a slight upturn, reflecting differing seasonal-adjustment approaches. Nonetheless, sales are stabilizing.

Weaker sales are pushing most markets back into a more moderate balanced state. Listings are staying on the market for longer, and active listings are on the rise in most markets, particularly the Lower Mainland and Victoria. That said, this is primarily a reflection of fewer sales as the new listings remain relatively low. Owners are not flooding the market with properties and opting to remain patient. There is little urgency to sell given





the strong state of the labour market and economy.

Price growth has eased, and after four consecutive declines, the average MLS® value edged higher by 0.2 per cent to $698,150 seasonally-adjusted. That said, provincial value reflects a combination of pure price change, as well as sales geography and product composition. More substantial sales declines in higher priced regions and sales softness for higher priced properties contributed to erosion. Since December, the average provincial prices have declined about 5.5 per cent, with roughly half accounted for by geographic composition. Much of the remainder likely reflects within market sales shifts, and weakness in Lower Mainland detached markets. Benchmark price indices available for the Lower Mainland and Island markets continued to appreciate through April at a one to two per cent monthly pace, which reflects tight supply.

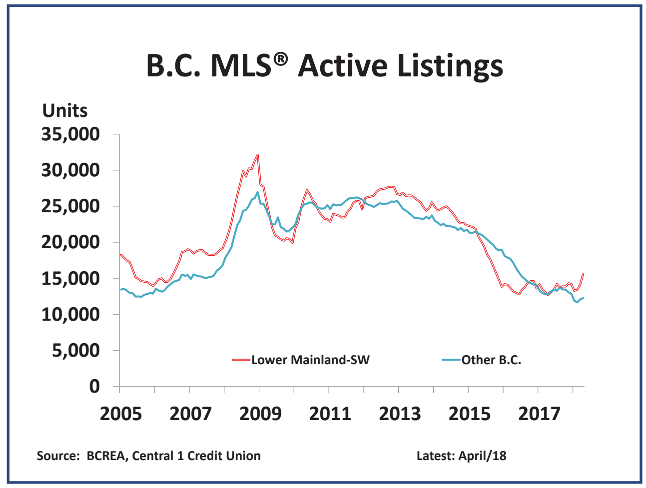
Year-to-date, unit sales are down 11 per cent. A mild rebound is expected in the second half of 2018, but demand will continue to be constrained by federal lending restrictions which are being amplified by rising mortgage rates. Provincial tax policy will also hold back sales. A mild price correction is possible if supply ramps up, particularly in the higher priced detached markets, but a more likely scenario is a lower growth or flat price environment given low inventories and a moderately strong economic expansion.

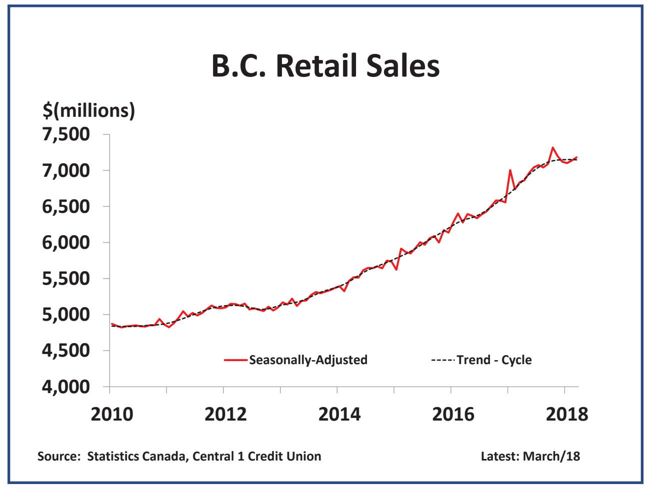
Retail sales climb for second straight month

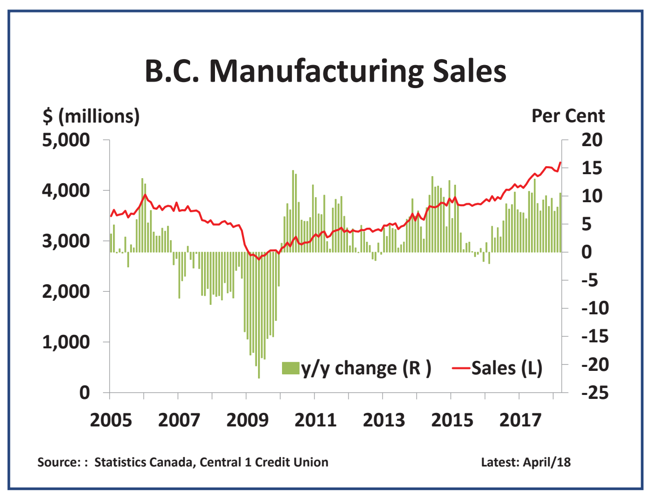
B.C. retailer posted a solid sales lift in March in line with the national gain. Dollar-volume sales rose 0.6 per cent from February to a seasonally-adjusted $7.18 billion, marking a second straight increase and strongest sales since November. The Vancouver metro area led the charge with a 2.4 per cent increase which offset a slight dip elsewhere in the province. Consumer spending looks to have turned the corner after a recent lull, but the underlying sales trend has been flat since the early fourth quarter, aligning with more subdued employment trend and more recent weakness in home sales. That said, year-over-year sales remained solid at 5.1 per cent in March, albeit down from the 5.9 per cent pace in February. Strong employment growth for most of 2017, accelerating wages, and tourism continue to support high levels of retail spending.

Among segments, a jump in new vehicle sales was a key contributor to the March gain, which accelerated from a 5.3 per cent year-over-year pace in February, to more than nine per cent. Seasonally-adjusted, we calculate a near eight per cent gain from February. Other drivers included a strong acceleration in clothing sales, which was up 17 per cent from same-month 2017, as well as an uptick at general merchandisers. On the flip side, electronic and appliance, and building materials dealers saw sales decelerate. While still up comfortably from a year ago, moderation likely reflects the slowdown in the broad housing market in this year. Gasoline sales slowed to 2.4 per cent year-over-year, from 9.5 per cent in February despite a near 13 per cent gain in gas prices from a year ago. This could reflect some changes in consumer and tourist behavior due to higher prices.

Annual retail spending is forecast to slow to about 4.5 per cent this year as growth in the general economy eases. Policy measures and higher mortgage rates will continue to hamper home sales and related retail purchases. Subdued job growth in recent months will also dampen growth but given this is due in part to skilled labour shortages, rising wages are expected to provide support. A growing population remains a positive driver of growth.







Manufacturing sales jump four per cent on wood product shipment

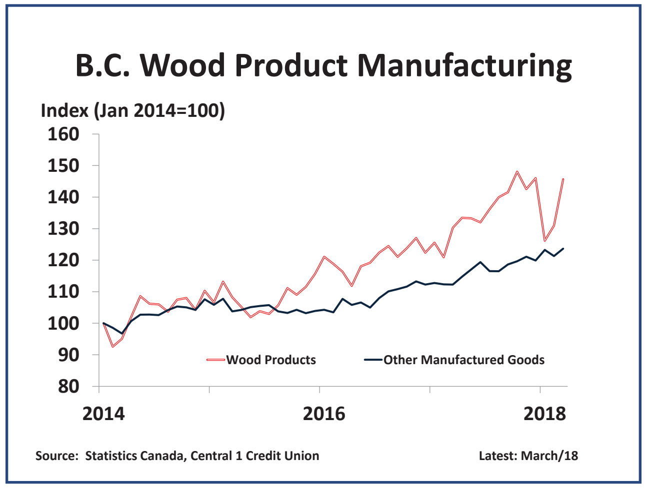
A strong pick up in wood product shipments drove a four per cent gain in total B.C. manufacturing sales in March, marking one of the strongest monthly gains in the country and a rebound following three successive declines. Total sales reached a seasonally-adjusted $4.55 billion. Nationally, manufacturing sales rose 1.4 per cent.

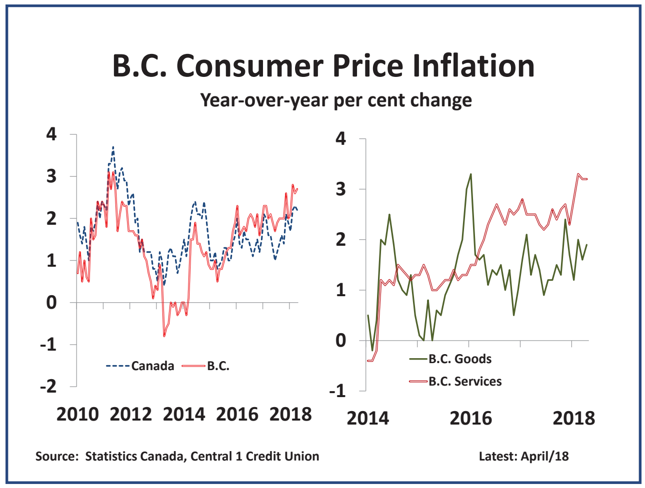
The principal driver of the March increase was an 11 per cent surge in wood products, which accounted for two-thirds of the net increase. Significant contributors also included paper manufacturing which rose six per cent, a 15 per cent increase in non-metallic mineral products, and a more than 50 per cent increase in aerospace products.

While prices continued to track higher on U.S demand, the forestry rebound likely reflected higher physical shipments following a sharp drop in February softwood lumber exports. Capacity bottlenecks in rail transport that have hampered shipments in recent months are easing, allowing more flow of factory goods to market.

Notwithstanding a recent dip, the trend in sales growth remains solid. Sales rose 10 per cent, year-over-year in March, with first quarter sales up more than eight per cent. First quarter growth was up, broadly driven by paper manufacturing (up 23 per cent), wood products (up six per cent), as well as fabricated metals and non-metallic minerals (both up 24 per cent). Higher commodity prices have also contributed to the increase.

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. Trade policy uncertainty remains a negative risk for the sector.





Consumer price inflation firm at 2.7 per cent in April

Consumer price inflation in B.C. remained firm in April and among the highest in the country. Year-over-year growth in the consumer price index (CPI) reached 2.7 per cent during the month, up from 2.6 per cent in March. This compared to 2.2 per cent growth in the national CPI and was third highest among provinces behind Manitoba (2.9 per cent) and Nova Scotia (2.8 per cent). On a seasonally-adjusted basis, month-to-month price growth accelerated to more than three per cent on an annualized basis.

Energy, particularly gasoline, remains a significant driver of price inflation. Gasoline was up 12.7 per cent on a year-over-year basis which was in line with growth in March. Housing costs also contributed above headline growth with homeowner replacement costs (up 4.7 per cent), and associated insurance costs up 4.2 per cent. On the bright side for households, growth in food costs was mild at 1.8 per cent, although fresh produce costs were up significantly.

Inflationary pressure for consumer services is far outpacing that of goods, with the latter likely being held down by retail competition. The price of general services, which include things like haircuts, foodservices, etc, are trending at a year-over-year pace of more than three per cent, compared to about two per cent for goods.

Going forward, a number of factors will keep inflation firm. Wages will continue to rise due a tight labour market and low unemployment rate, as well as the 11.4 per cent hike to the minimum wage on June 1, 2018 to $12.65. This will flow through to consumer prices over time, with the latter expected to drive higher prices for services like child care, retail services, and food services. Gas prices are also at risk of further increases due to the political rift between Alberta and B.C. related to the Kinder Morgan pipeline project.

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