B.C. Economic Briefing

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Highlights

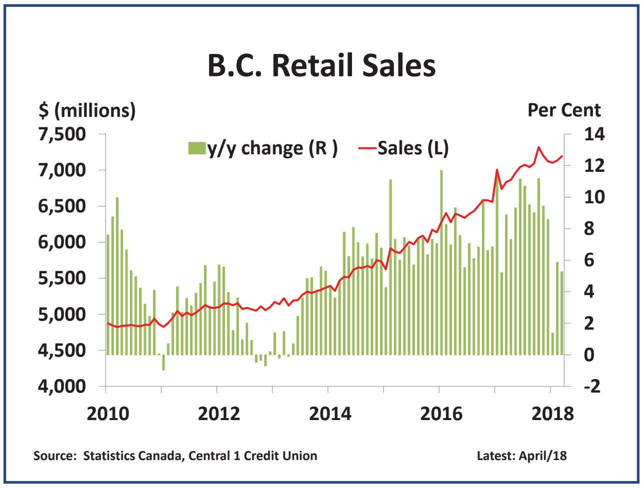
- B.C. retail sales traction continues into April
- Home sales decline outside the Lower Mainland
- Manufacturing shipments hold steady
- Tourism sector buoyed by international visitors
- B.C. inflation holds firm at 2.7 per cent

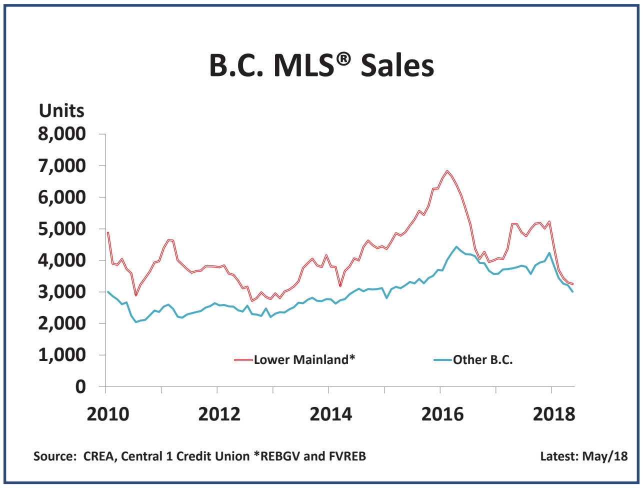
Retail sales gain in B.C. contrast with declines across Canada

B.C. was among the few outliers in national retail sales in April. While Canadian retail sales fell 1.2 per cent from March, led by declines of more than two per cent in Ontario, Quebec, and New Brunswick, B.C. retailers posted a solid gain of 1.1 per cent. This was third highest in the country, behind Saskatchewan and Nova Scotia.

Following a recent lull, sales have climbed for three consecutive months. At $7.27 billion, seasonally-adjusted sales were just shy of the previous peak observed in October and remained strong on a year-over-year basis at 5.9 per cent. Year-to-date, activity was 4.7 per cent higher. Sales in the Vancouver Census Metropolitan Area were up 3.4 per cent through April, less than the six per cent increase experienced in the rest of B.C.

Underpinning the stronger headline figures were gains in motor vehicle and parts sales, particularly for new vehicles. Year-over-year growth rose to eight per cent from 6.5 per cent in March. Housing-related purchases also strengthened, with building material and garden equipment store sales accelerating from to a 12 per cent year-over-year pace from 7.4 per cent in March, while electronics and appliances shops saw a nine per cent sales gain. The pick-up in home-related purchases contrasts with weaker home sales, but could reflect sales related to renovations, completion of new homes, as well as the mild weather and early spring gardening season. Gasoline sales surged 10 per cent from a year ago, owing to a combination of higher prices and population and tourism induced demand. Contributors to weaker growth included a deceleration





in clothing sales, which slowed from a 19 per cent increase in March to six per cent in April, and declines in sporting goods and health product sales.

B.C.'s retail environment remains moderately strong, as robust employment gains in 2017, rising wages, and tourism flows support spending. A slower housing market, and higher interest rates, are expected to be a drag going forward. Following a 9.5 per cent gain in 2017, annual retail sales are expected to slow to a still-strong 4.6 per cent, aligning with deceleration in general economic growth. Five per cent gains are forecast for both 2019 and 2020.

Outside the Lower Mainland, MLS® home sales fall in May

Despite signs of a sales bottom in Lower Mainland, pullbacks in most other markets curtailed provincial MLS® sales for a fifth consecutive month. Seasonally-adjusted B.C. sales declined 3.8 per cent from April to 6,263 units, marking the lowest since March 2014. Unadjusted, sales fell 29 per cent from same-month 2017.

Slumping sales continue to reflect the impacts of the federal policy that requires federally regulated lenders to qualify all buyers, even those with high down payments, at the contract rate plus two per cent or Bank of Canada posted rate, whichever is higher. Anecdotally, some provincially regulated lenders have also implemented variants of the stress test. Credit constraints have curtailed purchasing power of households, forcing some buyers downmarket, and pricing others out completely. Adding to the chill of lending regulations is revamped provincial tax policy, including a speculation tax on non-B.C. resident owners in the largest urban areas, and hikes to the foreign buyer tax among others.

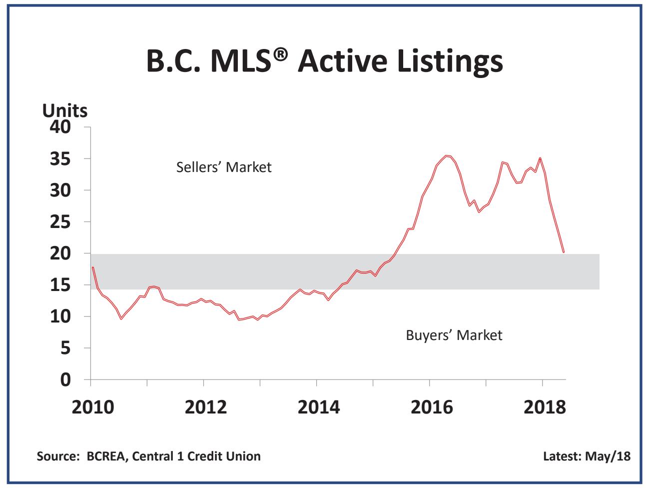
The sharpest sales declines in May relative to April were observed in the real estate board areas of Chilliwack (down 21 per cent), the South Okanagan (down 30 per cent), Okanagan-Mainline (down 6.9 per cent), and Victoria (down 5.7 per cent). Year-to-date, sales were down nearly 17 per cent, with declines led by the Lower Mainland, Victoria and Okanagan-Mainline, which is not surprising given these areas are the highest priced and most affected by credit constraints.

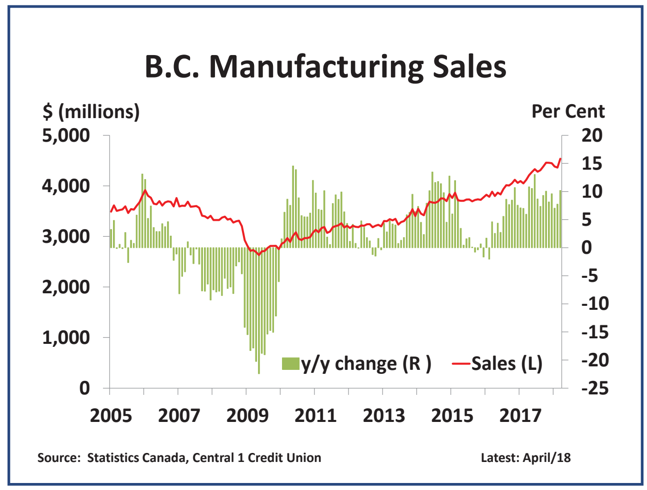
Weaker sales have placed upward pressure on resale inventory as units for sale sit on the market for longer. That said, new listings flow is largely in line with long-term averages, and active listings remain near historical lows. Sales-to-active listings ratios remain in a balanced-to-sellers' market range in nearly all regions of the province, although conditions have cooled from a year ago. Owners are not flooding the market with properties and instead, are opting to remain patient. There is little urgency to sell given the strong state of the labour market and economy.

Price levels remain firm, aligning with sales-to-inventory ratios. The average provincial MLS® price rose 1.5 per cent from April to $710,230 in May. Fewer sales in lower priced markets gave more weight to prices in the Lower Mainland. Average monthly prices are volatile, particularly given shifts in sales composition within markets, but growth prices rose in the majority of regions.

Manufacturing steady in April

Factory shipments in B.C. held steady in April following a strong March increase. Total sales reached a seasonally-adjusted $4.53 billion, down 0.1 per cent

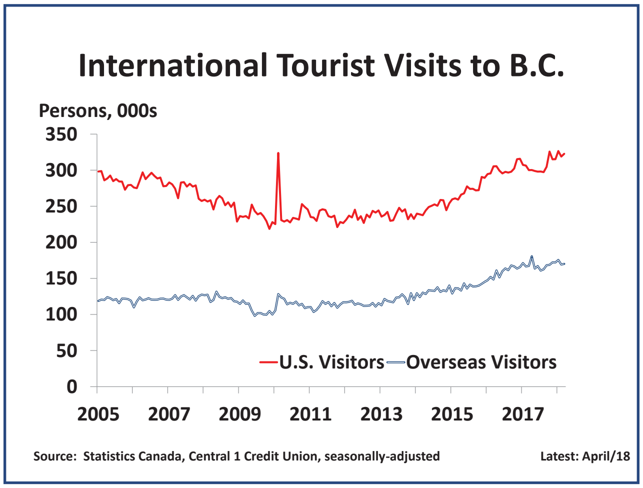


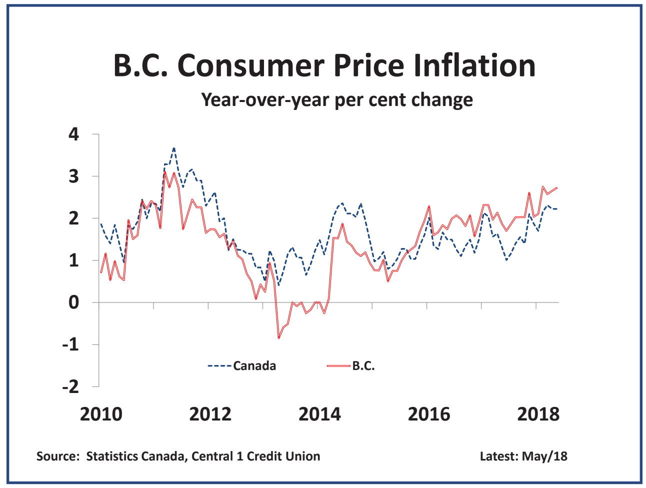


from March, but up 7.6 per cent on a year-over-year basis. B.C. managed to outperform national sales which were down 1.3 per cent from March, and up 3.6 per cent year-over-year.

While topline shipments were flat, non-durable goods sales jumped 2.4 per cent. Available data points to a strong gain in paper manufacturing, which rose 3.8 per cent, contributing to about a third of non-durable growth. Due to data suppression, other sector drivers are unknown, but likely owed to higher petroleum and coal sales, or chemical manufacturing. In contrast, durable goods sales fell 1.9 per cent, led by lower transportation equipment manufacturing which fell 15 per cent, a mild decline in wood products, and a 7.6 per cent decline non-metallic mineral products. Fabricated metals were a bright spot with a 3.7 per cent increase.

Broadly, manufacturing sales continue to track higher on domestic and demand from overseas markets. Sales rose 8.5 per cent through the first four months of 2018, led by a 25 per cent increase in dollar-volume sales. Non-metallic mineral sales rose 26 per cent, while fabricated metal manufacturing was up 23 per cent. A seven per cent increase in wood products was





also a substantial driver given a quarter share of total manufactured goods sales.

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

International tourist inflows to B.C. up five per cent through four months

International tourist visits to B.C. continued to trend at a high level in April, holding virtually unchanged from March. Seasonally-adjusted visits edged down 0.3 per cent from March to 491,270, as a 2.1 per cent decline in U.S. visitors was largely offset by a three per cent gain in overseas visitors. While the trend has been range-bound in recent months, it is still tracking a near-record high and was up 2.1 per cent from same-month 2017.

Through the first four months of 2018, total international tourist visits rose five per cent, driven largely by an eight per cent increase in U.S. visits, with particularly strong grains in the number visiting by air. Overseas visits continued to trend near a record high level, but year-to-date inflows were unchanged from a year ago.

Persistently strong tourism flows reflect a combination of a relatively weak Canadian dollar, growth in emerging market demand for tourism services, and wariness of travelers of the current politically charged environment in the U.S.

B.C. consumer price inflation holds firm at 2.7 per cent

Consumer price inflation in May remained firm and continued to exceed national price growth by a large margin. At 2.7 per cent, year-over-year growth in the consumer price index (CPI) was unchanged from April and compared to a 2.2 per cent national rate. Among provinces, B.C. CPI inflation was broadly aligned with growth in the Western provinces.

Gasoline prices continued to exert upward pressure on inflation. Unadjusted for seasonal effects, gas prices jumped four per cent in May relative to April. Gas prices rose 20 per cent on a year-over-year basis, reflecting this gain, and a slip in prices in May of last year. Excluding broad energy prices, overall price inflation was closer to 2.2 per cent. Other segments with relatively stronger price growth included shelter (3.7 per cent) and alcoholic beverages (6.6 per cent). In contrast, consumers are experiencing a steady price environment for food (0.9 per cent), and health and personal care products (0.8 per cent). Prices for services, which is tied more to local economic and wage pressures, continues to grow at a faster pace at 3.1 per cent.

Going forward, inflation remains 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 to $12.65 that occurred on June 1. 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.

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