B.C. Economic Briefing

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Highlights:

- September retail sales up 0.7 per cent year-over-year
- Consumer prices jump in October
- International tourism robust
- Employment insurance counts plunge in September

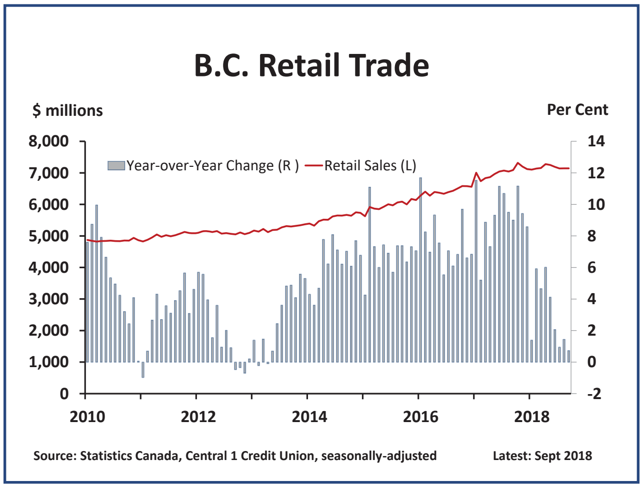
Retail sales unchanged in September, wildfires a drag

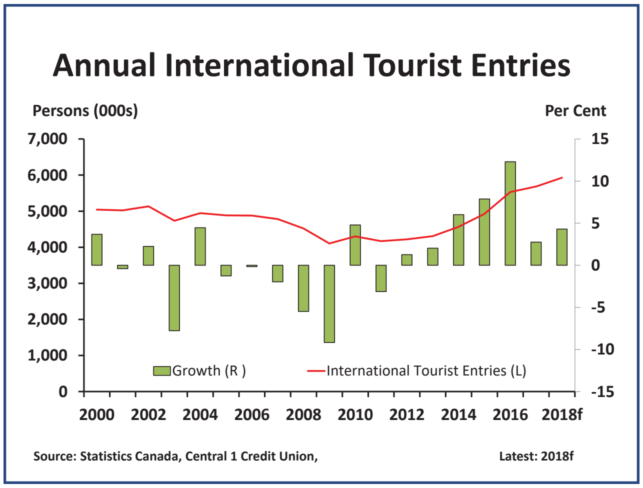
B.C.'s retail sales were little changed in September pointing to softness in consumer demand, while wildfires that swept through the B.C. interior also tempered gains. Dollar-volume sales were steady from August at $7.14 billion (seasonally-adjusted); however, year-over-year growth slowed to a disappointing 0.7 per cent from 1.4 per cent in August—a pace well below the rate of inflation. Sales have broadly trended range-bound through 2018 following robust growth in 2017 when annual sales climbed 9.3 per cent.

Decelerating year-over-year performance was driven by a slowdown in motor vehicle and parts sales, from 5.6 per cent in August to 6.0 per cent in September. Electronics and appliances sales fell 4.8 per cent, compared to an 8.6 per cent gain the prior month. Home furniture and furnishing sales were also a drag.

Some of the recent weakness was caused by wildfires. Statistics Canada surveyed nearly 4,700 retailers across Canada to assess wildfire impacts on business operations. About four per cent noted an impact from July through September, reflecting either direct effects of the fires or less tourism. While the dollar-volume impact of the fires was not provided, it has been a drag on recent sales in B.C.

Through the first nine months of 2018, retail sales growth was a modest three per cent through the, and slightly less than the national gain of 3.4 per cent. Vehicle sales were the primary drag, with growth of 0.7 per cent that aligns with a drop in the number of new vehicles sold in the province noted in last week's briefing. Less replacement demand and higher interest rates are likely factors. A deterioration in home sales has likely constrained sales at home and furnishings stores, which posted a modest gain of 3.6 per cent year-to-date. Clothing stores saw a strong pick up in sales this year of 10.0 per cent.





Regionally, sales growth in the Vancouver Census Metropolitan Area has underperformed, with sales up one per cent through the first three quarters, compared to a 4.7 per cent increase elsewhere in B.C.

Consumer price inflation hits three per cent in October

B.C. consumer price growth surged in October like other provinces. Year-over-year growth in B.C.'s consumer price index jumped from 2.5 per cent in September to 3.0 per cent. This was highest among provinces and slightly ahead of Nova Scotia, New Brunswick and Alberta, and compared to national inflation of 2.4 per cent.

Goods inflation accelerated from a 2.3 per cent year-over-year pace to 2.9 per cent in September, while services price growth remained firm at 3.1 per cent. Of the former, a pick-up in gasoline prices contributed with an acceleration in year-over-year growth from 12.1 in September to 15.9 per cent in October. Food price growth also firmed from 1.7 per cent to 1.9 per cent.

Products and services with above average inflation for October included: child care and housekeeping costs, up 8.1 per cent; homeowners home and mortgage insurance, up 8.5 per cent; and cigarettes, up 13.8 per cent.

Tourism buoyant in September

B.C. continues to enjoy a booming tourism sector, underpinned by a low Canadian dollar and potential aversion to the U.S. political environment. Seasonally-adjusted international tourist entries entering Canada through B.C. rose 2.3 per cent from August to 503,376 persons in September. Third quarter inflows rebounded after a second quarter lull. September's performance marked a modern era high and the second time this year that levels surpassed 500,000 persons. The record high 522,000 was set in September 1986 during the World Exposition on Transportation and Communication (Expo 86). That said, the current cycle is less impactful than that observed during Expo 86 given the size of the economy was less than half today's levels.

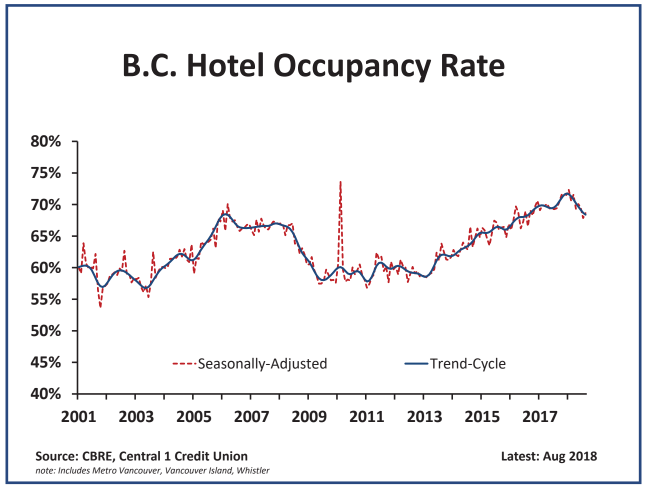
Nevertheless, current inflows are elevated and mark a growth driver for the economy. Year-over-year tourism inflows rose 6.2 per cent in September with year-to-date levels up five per cent. While U.S. visits comprise more than 60 per cent of total visitors, growth has been driven by overseas inflows, which rose 8.3 per cent year-to-date. U.S. visits were up 3.4 per cent over the same period.

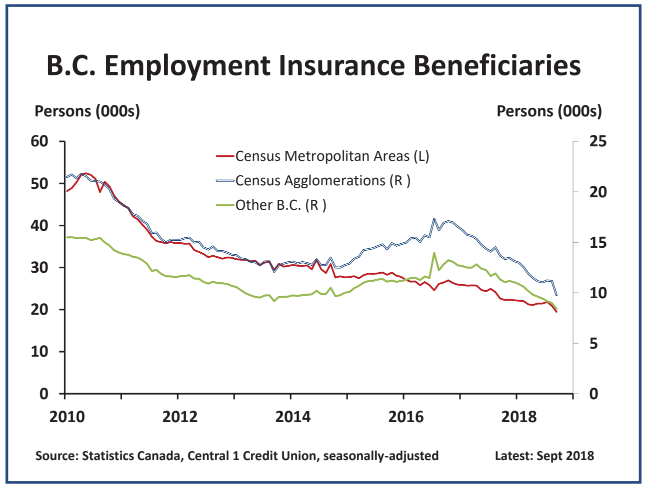
Annual tourist visits to B.C. are tracking about 5.9 million persons, marking a four per cent annual gain.

Strong tourism has propped up related sectors. According to CBRE's August estimates, recent strength in tourism have driven hotel occupancy rates to near a robust pace of 70 per cent (seasonally-adjusted)—largely from Metro Vancouver and Vancouver Island. Nevertheless, the rates are indicative of a strong performance for the local accommodations industry even though they exclude home-sharing services like Airbnb. Restaurants have also seen a boost with year-to-date sales at food and drinking establishments up 7.6 per cent, which was the highest among provinces and compared to a national gain of 5.3 per cent.

Employment insurance counts plunge in September

The number of individuals in B.C. receiving employment insurance (EI) benefits fell sharply in September. This aligns with the persistently low unemployment rate, tight labour market and the declining trend since late-2016. Total EI recipients fell 8.3 per cent or 3,400





persons from August to a seasonally-adjusted 37,650 persons, and down 21 per cent year-over-year.

EI counts naturally decline due to exhaustion of benefits, and more so in the most recent numbers. The sharp decline partly reflects a run-off of benefits, following a temporary expansion of the EI program in response to the severe slowdown in regional commodity markets during 2015 – 2017. In B.C., this included the northern and southern interior markets. By occupation, EI counts fell by 900 persons in the trades, transport and equipment operators sector, and by 300 persons in the natural resources and agriculture, which were impacted by the commodity downturn.

Current levels are below those observed pre-2008/09 downturn and largely reflect strength in the economy and bountiful job opportunities available in the market. The unemployment rate in September was 4.2 per cent, which was lowest among all provinces by more than a full percentage point. Initial and renewal claims for benefits, while volatile, have also trended lower and sit at the lowest level since early 2008.

Among metro areas, EI beneficiaries in the Vancouver Metropolitan Area declined by 830 persons or six per cent, Victoria counts fell nine per cent, while

Abbotsford-Mission and Kelowna were stable. Counts fell more sharply in mid-sized urban markets (which includes cities such as Nanaimo, Penticton, Prince George and many others) by 13 per cent, and seven per cent in rural areas, reflecting the expiration of temporary benefits in the interior.

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