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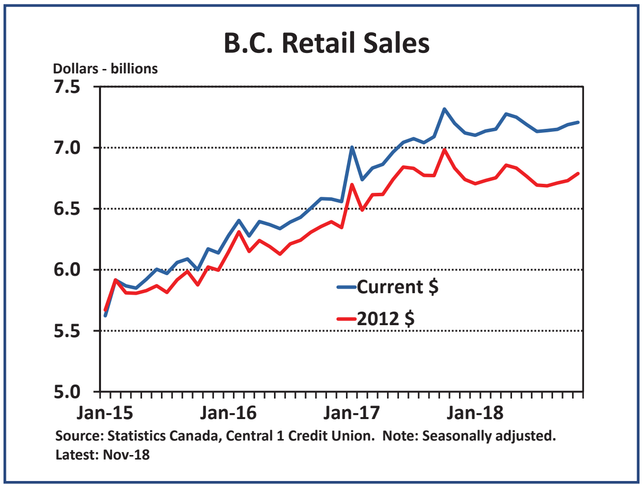
Highlights:

- B.C. retail sales outperform Canada
- November manufacturing sales break four-month losing streak
- Unemployment at decade lows
- Growth in international tourists



Retail sales up in B.C., down in Canada

B.C. retail sales advanced during November, counter to the national decline. Seasonally adjusted retail sales in B.C. rose 0.3 per cent in November over the previous month, while Canada experienced a 0.9 per cent decline overall. Metro Vancouver retail sales rose at a slightly faster pace of 0.5 per cent during November compared to a 1.5 per cent decline in Toronto.

In actual terms, B.C. retail sales increased 0.9 per cent during November over October while Canada posted a 0.6 per cent gain. Metro Vancouver retail sales surged 3.3 per cent. Electronics and appliance stores and clothing and clothing accessories stores powered B.C.'s November sales with gains of 66.5 per cent and 28.3 per cent, respectively. However, motor vehicle and parts dealers, gasoline stations and food and beverage stores posted substantial sales declines in the month.

Year-to-date, B.C. retail sales were 2.4 per cent higher than in the same period last year. Metro Vancouver sales were up only 0.5 per cent on the same basis, compared to a 4.2 per cent increase in the rest of B.C. Significant sales gains occurred in specialty food stores (14.2 per cent); clothing stores (12.0 per cent); beer, wine, and liquor stores (8.5 per cent) and home furnishing stores (7.3 per cent). Fewer sales played out in furniture stores (-0.9 per cent), motor vehicle and parts dealers (-0.5 per cent), health and personal care stores (-0.4 per cent) and grocery stores (-0.1 per cent).

Sales trends in Metro Vancouver compared to the rest of B.C. differed in some respects. For example, year-to-date sales at motor vehicle and parts dealers were down 5.1 per cent in Metro Vancouver, while a 4.9 per cent gain occurred in the rest of B.C. Another notable difference was in home furnishing store sales, which rose 2.1 per cent in Metro Vancouver, but 12.2 per cent elsewhere. Specialty food store sales were 49.1 per cent higher outside of Metro Vancouver versus a 10.7 per cent drop in Metro Vancouver.

With eleven months in, retail sales for the year will come in about 2.5 per cent higher than last year and will mark the slowest sales gain since 2012. Retail sales rose 9.3 per cent in 2017 and 7.7 per cent in 2016 aided by a strong housing market, which was not the case in 2018. Similarly, slower new motor vehicle sales in 2018 had a negative impact on total retail sales.

The 2019 outlook for retail sales is not bright with little or no boost coming from housing market activity, lower gasoline prices and range-bound new motor vehicle sales. Nonetheless, consumer demand fundamentals will remain positive with ongoing employment growth and low unemployment, firming wage increases and further population growth. In addition, lower gasoline prices can increase discretionary spending in other areas. Slightly higher interest rates in 2019 compared to recent years, are a small negative for borrowers and high household debt levels imply some consumers are 'tapped out'. Overall, we see a modest increase in retail sales during 2019 and recognize that a small decline is also possible.

November manufacturing sales break four-month slide

Manufacturing sales in B.C. increased in November, breaking the run of four consecutive monthly declines since July. Seasonally adjusted manufacturing sales edged 0.3 per cent higher in November on the strength of a 1.2 per cent increase in durable goods sales. The prior four-month decline in total sales was concentrated in durable goods, mainly wood products and primary metal manufacturing. Our estimate of total real manufacturing sales was a 0.7 per cent gain in November over October.

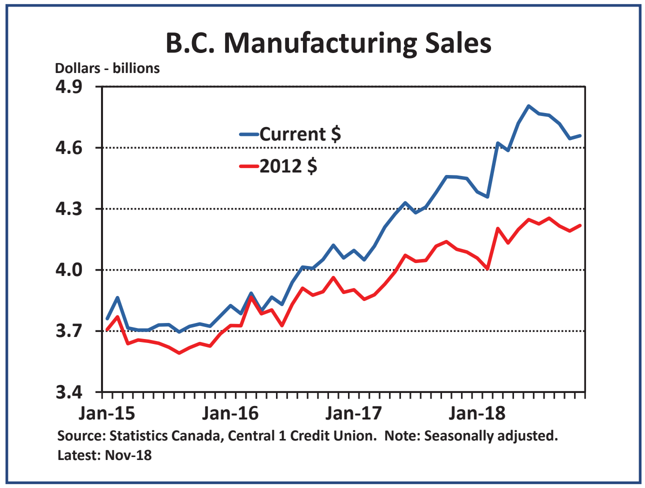
So far this year sales have grown at a robust pace, notwithstanding the recent four-month decline. Total manufacturing sales in 2018 were 8.8 per cent above the January-to-November period last year. Durable goods sales were 8.0 per cent higher than last year, led by a 52.6 per cent jump in fabricated metal products and a 15.5 per cent jump in non-metallic mineral products. Other significant contributors were a 14.9 per cent rise in electrical equipment, appliance and component manufacturing and a 14.5 per cent rise in transportation equipment. The large woods product manufacturing sector saw a 5.4 per cent increase. Non-durable goods manufacturing sales rose 10.0 per cent led by a 22.8 per cent surge in paper manufacturing.

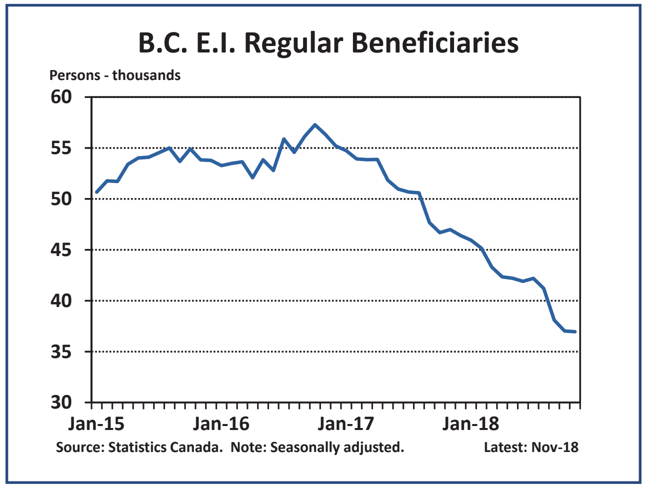
Sales this year are on pace to match last year's 9.0 per cent increase. This year's sales composition compared to 2017 shifted towards non-durable goods and away from durable goods. Manufacturing sales in 2019 are expected to rise at a slower, but still respectable, five per cent pace. Some of this slowdown will be from price effects such as a smaller increase in paper product prices and lower petroleum prices. The global economic slowdown has resulted in weaker metals prices. Wood product prices look to slow as well, though U.S. housing starts are widely seen posting a small gain, which should provide some volume offset. The lower loonie has the potential to garner some market share growth, but this usually takes more than one year to fully materialize.

Low unemployment prevails

The number of regular Employment Insurance (EI) beneficiaries in B.C. was unchanged from a month earlier at 36,950 in November. Compared to one year earlier, there were 21.1 per cent fewer EI recipients. Changes in the number of beneficiaries reflect changes labour market conditions, those exhausting their regular benefits, those leaving the workforce and other reasons related to individual circumstances. The greater impact is from changes in labour demand.

B.C.'s EI count is at its lowest level in two decades and has seen a substantial decline since late 2016. Employment growth of more than 100,000 persons, or four per cent, during this period is the main factor. The unemployment rate as measured in the Labour Force Survey, declined from 5.5 per cent to 4.4 per cent.





EI counts are down across the province. In most metropolitan and census agglomeration areas, there were fewer EI recipients in November than October, as well as from one year ago. During the past two years, though, some of the largest declines occurred in Fort St. John, Dawson Creek, Kamloops and Prince George. Areas with the smallest declines were Powell River, Metro Vancouver and Port Alberni. This highlights that an area's local economic makeup and initial market conditions play a role in those performances.

By occupation, the largest declines during the past two years was in the trades, transport and equipment operators and related category. The declines were more specifically observed in transport and heavy equipment operation and related maintenance occupations and trades helpers, construction labourers and related occupations. Occupations in art, culture, recreation and sport saw the smallest decline.

The outlook calls for a continuation of low EI counts in the short-term due to ongoing labour demand from the economy. No material change is expected in 2019, though, a slowdown in housing construction could see an increase in those occupations later in the year. However, expected gains in non-residential construction activity may well offset some or all of that slowdown.

Tourism holding up

Despite a decline in November, international tourist entries to B.C. remained 7.0 per cent above last year on a year-to-date basis. Seasonally adjusted international tourists declined 1.1 per cent during November over the previous month. The decline occurred in tourists from countries other than the U.S. However, through November non-U.S. tourist entries were 8.2 per cent above the same period last year. U.S. tourist entries were 6.4 per cent greater so far this year.

The lower Canadian dollar may offset some of the growth slowdown expected in the U.S., China and Europe in 2019 resulting in another year of growth. As long as no economic recession or geopolitical event plays out, B.C.'s tourism sector will perform well given its underlying attractiveness.

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