

## Highlights:

- B.C. retail spending dips 0.2 per cent in December
- Strong momentum lifts international tourist visits to a record high
- Employment insurance beneficiary counts decline 17 per cent
- New vehicle sales slump in December

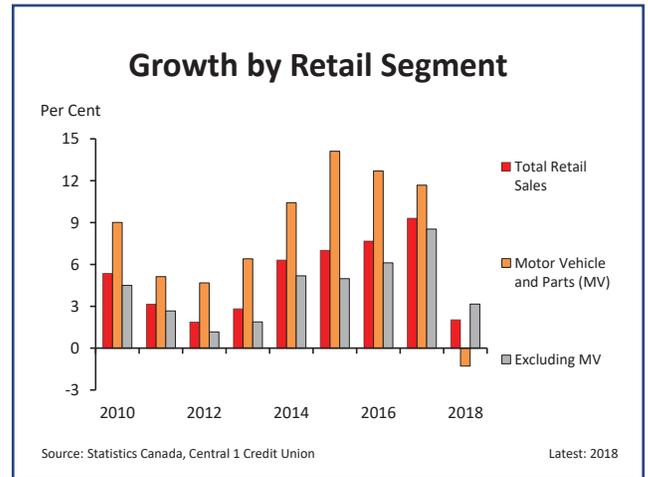
## December retail spending falls short

Retail spending fell in December, marking a weak end to a disappointing year. Sales fell 0.2 per cent from November to a seasonally-adjusted \$7.164 billion, compared to a more modest dip of 0.1 per cent nationally. With a downward revision to the previous month's estimate, this marked a second straight monthly decline. Metro Vancouver was a substantial drag as sales fell 0.7 per cent from November while sales in rest of the province increased by 0.3 per cent. In price-adjusted terms, real provincial retail sales was up a negligible 0.1 per cent.

December's dip extended the soft pattern of sales seen over the past year. Year-over-year, actual sales fell 1.1 per cent with full-year growth at a subdued two per cent. This compared to an annual increase of 9.3 per cent increase in 2017.

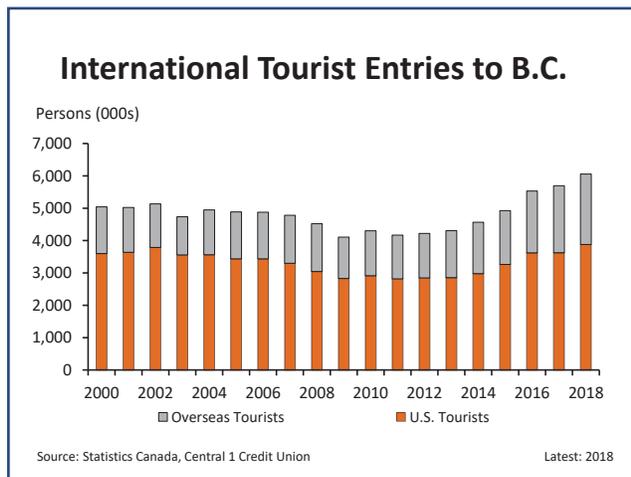
Retail sectors dragging on December activity included lower motor vehicle and parts sales, which we estimate fell 2.5 per cent from November and 10 per cent on a year-over-year basis. A decline in this segment is consistent with new motor vehicle sales noted below. Furniture and furnishings sales are also deteriorating with sales down on a monthly and year-over-year basis. The bite of higher interest rates over the past year and housing policy measures have impacted these segments. Clothing sales and electronics sales pulled back after November gains.

Last year's sharp erosion in annual sales growth was broad based across segments but driven largely by the slowdown in motor vehicle and parts dealers, which fell 1.3 per cent in 2018 following a 11.7 per cent increase in 2017. Higher vehicle sales prices lifted dollar-volume sales with physical vehicle sales down closer to five per cent.



Sales at building material and garden stores decelerated from a 33 per cent gain in 2017 to 5.1 per cent in 2018, while gasoline station sales rose 3.8 per cent compared to 18.8 per cent in 2017. These sectors were less of a growth driver compared to 2017, despite above headline growth. While relatively low sales growth was observed at food and beverage stores (up 2.3 per cent) and level sales growth was observed at health and personal care stores—growth was weighed down largely by grocery sales, a bright spot was clothing and accessory stores, which recorded a 9.1 per cent sales gain.

Metro Vancouver sales underperformed the rest of the province as annual sales rose 0.3 per cent, compared to 3.6 per cent elsewhere. Divergence in motor vehicle sales was a large factor. Sales in Metro Vancouver fell 5.6 per cent but rose 4.0 per cent in other areas. Sales at furniture and furnishing stores (up 0.2 per cent) also significantly underperformed the 4.1 per cent increase outside Metro Vancouver, reflecting a much deeper housing market downturn.

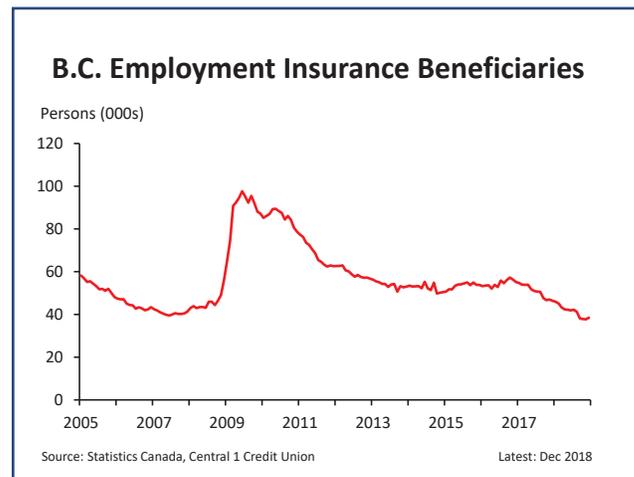


Retail sales spending will remain range-bound with little or no boost coming from housing market activity, lower gasoline prices and range-bound new motor vehicle sales. Nonetheless, consumer demand fundamentals will remain positive with ongoing employment growth, low unemployment, firming wage increases 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. Overall, we see a modest increase in retail sales during 2019 and recognize that a small decline is also possible.

### International tourist visits to B.C. surpasses six million in 2018

B.C.'s tourism sector posted a banner year in 2018 as international tourism inflows posted robust growth despite a slip in late-year momentum. The boost from a low Canadian dollar and rising global travel demand have driven this trend, while U.S. politics may be pivoting some travelers to destinations outside of the U.S.

The number of international overnight visitors entering Canada through B.C. reached a seasonally-adjusted 507,105 persons in December. This was down 1.3 per cent from November but up 4.3 per cent from same-month 2017. A rising trend through much of the year lifted total tourist inflows to more than 6.05 million persons, which is the first time on record that levels breached the six million mark. This was 6.4 per cent above 2017. Specifically, U.S. tourist inflows rose seven per cent to a record 3.88 million persons, which surpassed the previous high of 3.79 million persons observed in 2002. Overseas visits continued to set new records with 2.18 million tourists, up 5.2 per cent from 2017 and more than 50 per cent higher than levels observed during the 2000 to 2010 period.



While U.S. visitors remain the largest source of international overnight visitors (64 per cent in 2018), flows from other countries have eroded this share in recent years. Among overseas tourists, the largest sources of tourists are China (17 per cent), United Kingdom (10.4 per cent) and Australia (11 per cent). South Korea, Japan, Germany and Mexico are also key drivers.

On a growth basis, 2018's increase in overseas visits was driven by Brazil (up 78 per cent or 18,335 persons), China (up 9.1 per cent or 31,650 persons), India (up 19 per cent or 15,300 persons) and Taiwan (up 20 per cent or 15,853 persons). Visitors from China, Mexico and to a lesser extent India have driven the upshift since 2010.

A low Canadian dollar will continue to support tourism demand; though growth in visitors is likely to be moderate given a slowing global growth environment. It remains to be seen if recent political tensions between Canada and China slows inflows from that region. Nevertheless, demand will likely remain solid contributing to ongoing growth in tourism services and related sectors in B.C.

### Tight labour market keep employment insurance counts at cycle low

Solid hiring momentum and low unemployment are holding employment insurance (EI) counts at a cycle low. While levels edged up two per cent from November to 38,450 beneficiaries in December, they were down 17 per cent year-over-year. Various factors have contributed to the declining trend over the past two years—including benefit expirations—but the main driver has been a tightening of the labour market. B.C.'s unemployment rate was at 4.4 per cent in December, which was lowest in the country, while the job vacancy rate is among the highest. Out of work individuals are generally finding new opportunities with

ease. Similar to total counts, initial and renewal claims are trending at a low pace.

A scan of the urban areas shows trends and improvements in all labour markets. Some of the most significant declines have come in northern areas. EI counts are down more than 30 per cent year-over-year in Dawson, Fort St. John, Prince George and Prince Rupert while EI counts in Terrace fell 46.5 per cent. Some of these declines may reflect increasing activity related to the liquefied natural gas project. Counts declined more than 20 per cent in Kelowna and Abbotsford-Mission, 11 per cent in Vancouver and 12 per cent in Victoria.

## New vehicle sales stall out with December dive

Slumping new vehicle sales accelerated in December signaling subdued consumer demand. Sales in B.C. fell 10 per cent year-over-year to 14,498 vehicles compared to a 6.9 per cent drop in November<sup>1</sup>. Seasonally-adjusted, we calculate a near eight per cent decline in sales from November and the fewest monthly sales since mid-2015. On a trend basis, vehicle sales have fallen since mid-2017. Nevertheless, at 225,350 units, annual sales were at a historically high level despite a five per cent decline from 2017. The average price of a vehicle sold rose 5.4 per cent, owing to a combination of higher priced vehicles and a higher share of trucks (including SUVs) sold, which command a higher price.

Various factors are likely contributing to the downward cycle in sales. Increased interest rates in 2018 is constraining growth on interest-sensitive investments, while strong replacement demand from recent years has likely run its course. Factors that continue to support elevated sales are rising population, comparably low interest rates and a strong labour market. The decline in vehicle demand was a key factor in disappointing retail sales growth in 2018.

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<sup>1</sup> Includes new motor vehicle sales in both B.C. and the Territories

