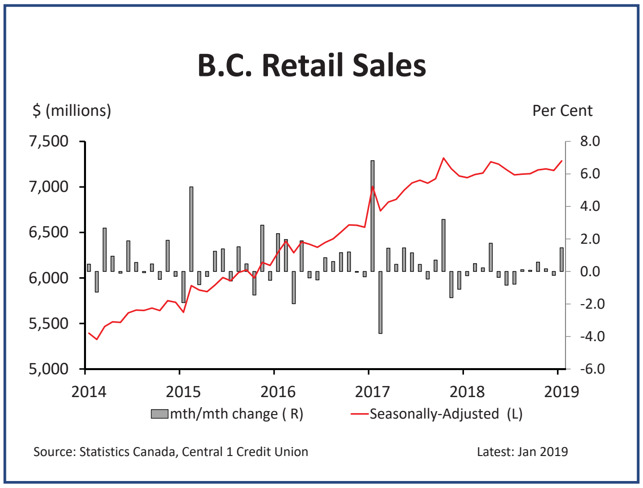
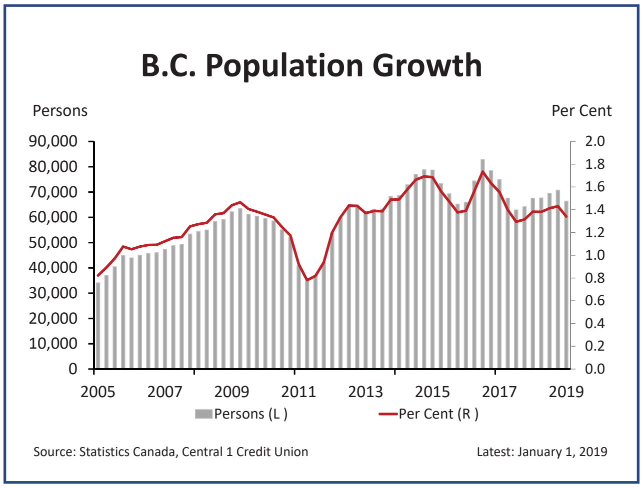
B.C. Economic Briefing

Volume 25 • Issue 12 • Week of March 18-22 2019 | ISSN: 1981-355

Highlights:

- Retail sales climb 1.4 per cent in January
- Population growth eases but remains firm
- Strong tourism inflows continue into 2019
- Employment Insurance counts edge higher
- Consumer price inflation slows





B.C. retailers see a post-holiday sales bounce

Retail spending in B.C. firmed up in January with retailers posting the strongest monthly sales gain since April 2018. Total sales jumped 1.4 per cent from December to a seasonally-adjusted $7.28 billion. This was the second strongest gain among provinces, trailing only Nova Scotia, and compared to a national decline of 0.3 per cent. Year-over-year, sales increased 2.6 per cent following a 0.8 per cent increase in December and led all provinces.

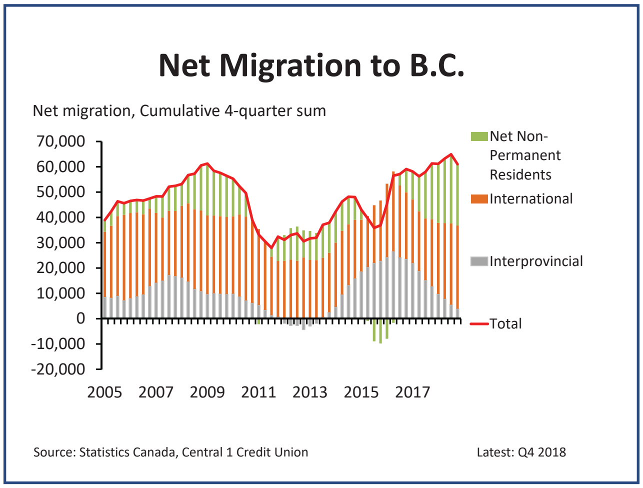
Sales improved across most retail segments to start the year. Motor vehicle and parts sales rebounded, with sales up 5.1 per cent year-over-year, compared to a 10 per cent drop in December. Clothing and sporting goods and recreation stores both posted sales gains of more than 11 per cent from the prior year. On the flip-side, weakness persisted in housing-related sectors, with home furniture and furnishings down 7.9 per cent and electronics and appliance stores down 3.7 per cent, albeit improving over a more substantial decline in December.

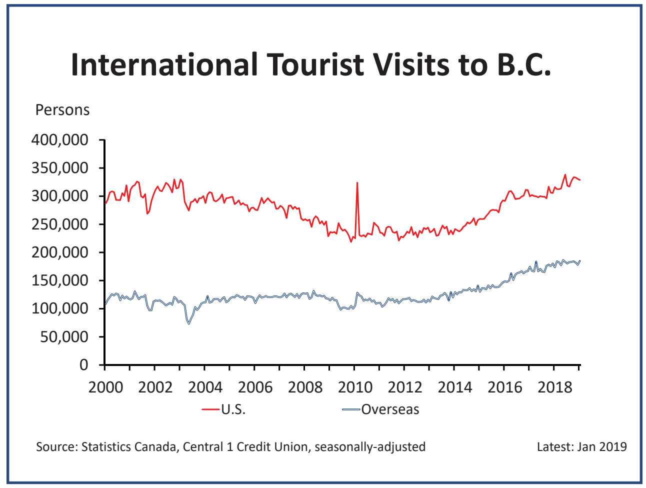
Vancouver Census Metropolitan Area retail activity grew at a slower pace than the rest of the province with sales up 1.3 per cent from December and 0.9 per cent from a year ago (seasonally-adjusted). Motor vehicle sales have been stronger outside the Vancouver area, which is contributing to the deviation in growth. Housing-related retail stores have seen a greater drop outside the Vancouver area.

January's uptick in provincial sales is an encouraging sign that consumer demand is firming following 2018's disappointing gain of two per cent—the slowest pace since 2012. That said, given the subdued trend in recent quarters, more positive readings in the months ahead are needed to establish an upward trend. Any gains this year, which we currently forecast at 3.6 per cent, are likely to be modest. The housing market downturn continues to work its way through the economy and will hold back spending on related goods, while signs of a global economic slowdown may also impact consumer confidence. Population growth and a tight labour market will remain supportive of demand. Interest rates will likely hold steady given economic headwinds and will provide some support for rate-sensitive purchases.

International inflows drive population in the fourth quarter

B.C.'s population continued to expand at a steady pace in the fourth quarter. Estimated population reached 5.02 million persons as of January 1, 2019, which was





up 1.3 per cent, or 66,400 persons, from a year ago. This was below the national gain of 1.4 per cent and fourth strongest among provinces.

On a four-quarter basis, population growth was driven almost entirely by international sources. Net international migration reached 32,880 persons, with net non-permanent residents adding another 24,240 persons. Net interprovincial migration was a mild 3,900 persons. The remainder reflected natural growth from births outnumbering deaths.

While population growth was solid, momentum slipped. Seasonally-adjusted population gains eased from an annualized pace of 1.4 per cent the previous quarter to 1.1 per cent in the fourth quarter. Nevertheless, migration inflows remain steady. International immigration inflows continued to trend near the highest pace since 2010, though levels have moderated at a slower pace than the previous quarter while inflows from other provinces rebounded. A sharp loss of current residents to other provinces, specifically to Alberta and Ontario, has led to net interprovincial outflows and offset some of these gains. Economic factors and higher home values may have driven this increase as some households seek more affordable housing.

Net non-permanent resident inflows, which are strongly seasonal, slipped in the fourth quarter as per the norm following a third quarter surge. The drop off was milder than seen in previous years. Non-permanent residents have been a huge source of population gains this year, reflecting temporary workers, students and refugee inflows. The risk is that these flows reverse in the future, although some individuals may transition to permanent residency.

The economy, while slowing, remains solid and will continue to attract residents to the province. Major project construction and slower growth in Alberta is expected to boost interprovincial inflows. Meanwhile, the province remains a destination of choice for international immigrants, students and other temporary residents looking towards North America as a home base and it should get its fair share of higher federal immigration intake targets. Population growth is forecast to trend near 1.3 per cent per year and will remain supportive of consumer activity in B.C. and future housing demand.

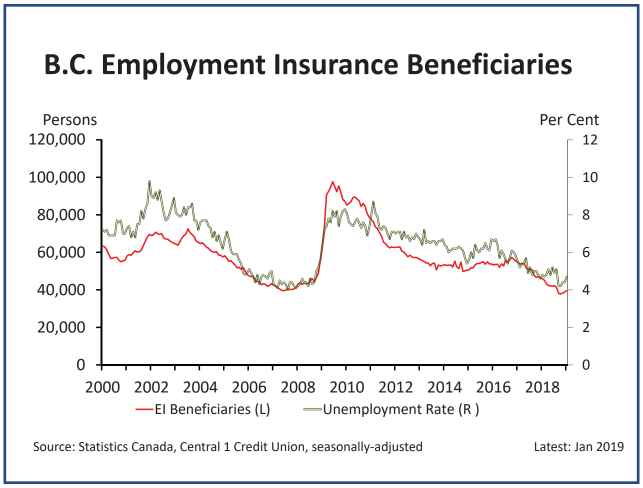
Travel from Asia boosts January tourism numbers

Tourism sector strength extended into 2019 with a near-record high number of international tourists flowing to the B.C. Total entries to Canada via a B.C. customs entry point reached a seasonally-adjusted 513,744 persons. This was up one per cent from December and nearly five per cent on a year-over-year basis. U.S. tourist visits slipped 0.5 per cent from December; however, this was offset by a 3.7 per cent increase in overseas visitors. Driving this gain was a 7.3 per cent increase in visitors from Asia and driven by more visits from China, Taiwan and Hong Kong. Visitors from Australia and New Zealand also rose. Despite a slip, U.S. visits are at the highest level since the early 2000s and overseas tourist visits are at record highs.

Prospects for the tourism sector are solid. The Canadian dollar is expected to remain low given soft Canadian economic conditions and interest rate expectations. This, along with some aversion to the U.S. political environment and Canada's reputation as a relatively safe country, will continue to maintain elevated tourism activity. That said, growth in the sector has likely peaked.

Employment Insurance counts align with low unemployment, but trend up

Low unemployment persisted in January as indicated in cyclically low Employment Insurance (EI) counts.



That said, a third straight increase in the number of program beneficiaries and slightly higher initial and renewal claims could point to a mild softening in labour market momentum.

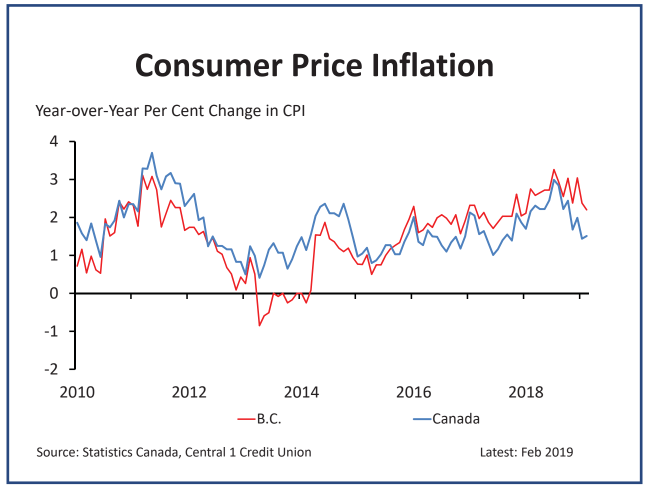
Total EI beneficiaries rose 1.6 per cent (or 640 persons) from December to 39,530 persons but remained 14 per cent below year ago levels. While benefit expiration is a factor that naturally erodes EI trends, current low levels reflect a tight labour market and an unemployment below five per cent—among the lowest in Canada. For the most part, employees are finding little difficulty in finding work opportunities.

Among occupations, EI counts rose 2.3 in the sales and service occupations and 3.8 per cent for management occupations; although the actual increases are small. Among census metropolitan areas (CMA), EI counts fell 1.3 per cent from December in the Vancouver CMA but rose in Victoria (2.5 per cent), Kelowna (7.1 per cent) and Abbotsford-Mission (1.7 per cent). Nevertheless, levels were down significantly across the board from a year ago.

Inflation eases in B.C., remains highest among provinces

Consumer price inflation in B.C. continued to outpace the rest of the country in February, despite easing from December. Twelve-month growth in the Consumer Price Index came in at 2.2 per cent in February, down from 2.4 per cent in January. This compared to a national increase of 1.5 per cent.

Price inflation held relatively steady across most major products from January. The price of goods rose at a faster pace, edging up from 1.6 per cent to 1.8 per cent year-over-year, while services-price inflation fell from 2.8 per cent to 2.5 per cent. The former included acceleration in clothing and footwear prices, which rose 2.6 per cent from 1.9 per cent in January.



Relative to a year ago, consumers wallets are being pinched mostly by higher natural gas prices (up 10.5 per cent), shelter costs (up 3.2 per cent), specifically related to rent (up 3.4 per cent), homeowners' mortgage and insurance (up 8.4 per cent) and maintenance (up 4.0 per cent). For parents, childcare costs were up 5.7 per cent. A significant offset is lower gas prices, which were 4.4 per cent lower.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209