B.C. Economic Briefing

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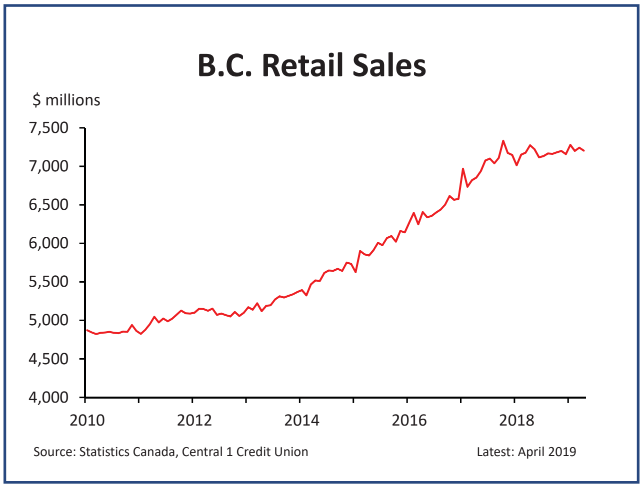
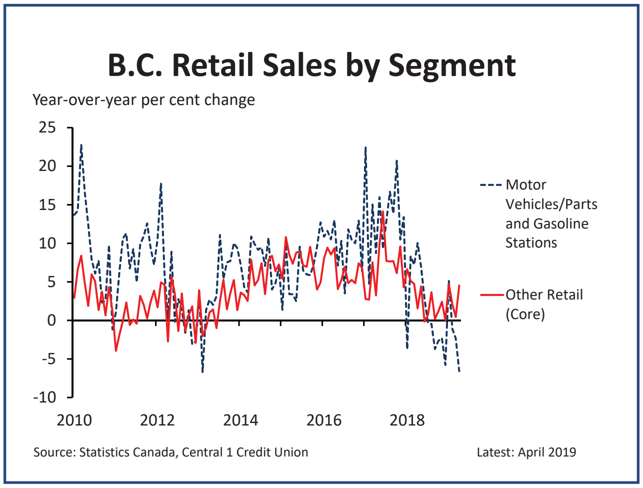
Highlights:

- Retail sales decline 0.5 per cent in April
- High job vacancy rate points to tight labour market
- Non-durable goods lead manufacturing higher in April
- CPI inflation firm at 2.6 per cent
- B.C. population climbs by more than 67,000 persons over latest four quarters





Vehicle sales pull down retail activity in April

Following a promising March gain, retail sales back-tracked in April to extend the soft trend observed over the past year albeit with a number of bright spots. According to Statistics Canada, B.C. dollar-volume sales fell 0.5 per cent from March to a season-ally- adjusted $7.203 billion, which was one per cent below same-month 2018. Declines were led by the Vancouver Census Metropolitan Area (CMA), which recorded declines of 1.7 per cent from March and 4.4 per cent year-over-year, as sales rose in the rest of the province.

B.C. underperformed the national picture which posted gains of 0.1 from March and 3.7 per cent on a year-ago basis.

The decline in headline sales volume primarily re-flected lower motor vehicle and parts sales which has generally declined over the past year due to factors such as higher borrowing costs and lower replace-ment demand. Sales in this segment fell 10.5 per cent year-over-year in April, compared to a 5.5 per cent drop in March. In contrast, our measure of core retail sales which excludes motor vehicle sales and gaso-line, and better reflects current demand rose in April to extend a mild positive trend and was up 2.4 per cent year-over-year and likely reflects persistent strength in the labour market and population gains. While there were some pullbacks in some store-segments from April, year-over-year growth was strong for clothing (up 4.9 per cent), general merchandise stores (6.5 per cent), and food and beverage stores (up 5.9 per cent). Housing related sales in the furniture and furnishing stores and those geared to building materials also rose from March but have generally remained soft with weakness in the housing market.

Year-to-date, overall sales were up a scant 1.2 per cent over the first four months. Sales in the Vancouver CMA declined 1.4 per cent, driven by a near 10 per cent decline in motor vehicle and parts. Sales in the rest of B.C. rose 3.7 per cent. Accounting for inflation which is tracking above 2.5 per cent in B.C., real retail spending is negative. However, this does not include e-commerce retail which is rising at a double-digit pace in Canada, but is still about three per cent of total retail spending.

Jobs remain unfilled in B.C.

It was the same old story for B.C.'s labour market in the first quarter according to the latest job vacancy data from Statistics Canada. B.C. continues to experi-ence a swath of unfilled positions, which could very well be holding back economic momentum in the province.

The agency estimated a total of 101,945 unfilled positions in B.C. during the first quarter. While down from Q4, likely in part due to seasonal factors, job vacancies were up 10 per cent from same-quarter 2018. This compared to a 9.6 per cent nationally, led by a surge in Quebec of 23 per cent.

More glaring is the elevated job vacancy rate. At 4.4 per cent of filled and unfilled positions, B.C.'s rate was more than a full percentage point above any other province. While employment growth has trended near three per cent, this has still lagged job openings. The second highest job vacancy rate was found in Quebec at 3.1 per cent. Correspondingly, B.C. has consistently recorded the lowest unemployment rate over the past year.

Among regions, the Lower Mainland-Southwest faces the most acute shortages with a job vacancy rate of 4.9 per cent despite solid population gains. Employment growth is robust, but labour supply has not kept pace. North Coast and Northeast area rates are also high at 3.9 per cent suggesting a pick up in job opportunities related to liquefied natural gas projects. In fact, job vacancies in these areas were up 60 per cent in the former, and 49 per cent in the latter from same-quarter 2018.

On an industry basis, job vacancy highlights include

- Transportation and warehousing (7.2 per cent)
- Professional, scientific, technical services (5.5 per cent)
- Accommodations and foodservices (6.4 per cent)
- Construction (6.3 per cent)

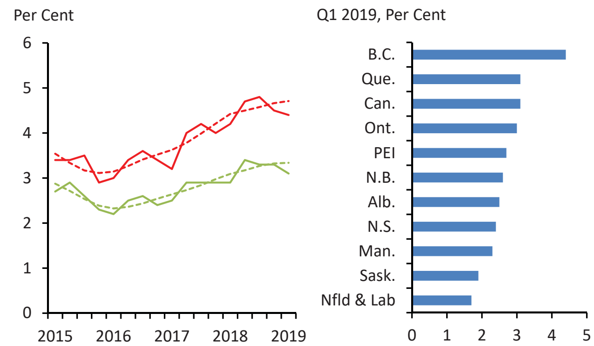
Industries with relative slack included finance and insurance (2.7 per cent); real estate, rental and leasing (2.6 per cent); and education (1.9 per cent).

The latest job vacancy statistics means employers will need to up their game to attract workers through wage hikes, or other non-pecuniary benefits such as flexible working arrangements, improved extended health, and other incentives. The alternative is to increase productivity through investments in technology or outsource some work to less competitive regions.

Factory sales pick up in April on non-durable goods production

B.C.'s manufacturing trend looks to be picking up after eroding for more than six months. Factory sales rose

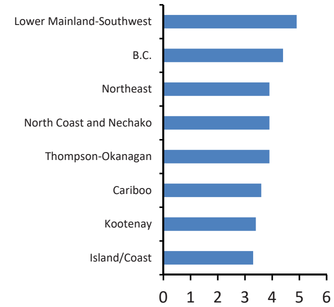
Job Vacancy Rate



Source: Statistics Canada, Central 1 Credit Union

Job Vacancies

Job Vacancy Rate, Q1



B.C. Job Vacancies

	Q1 2018	Q1 2019
British Columbia	92,625	101,945
Vancouver Island and Coast	11,155	11,940
Lower Mainland-Southwest	65,160	72,240
Thompson-Okanagan	10,325	9,670
Kootenay	1,760	2,355
Cariboo	1,585	2,590
North Coast and Nechako	1,060	1,580
Northeast	1,580	1,570

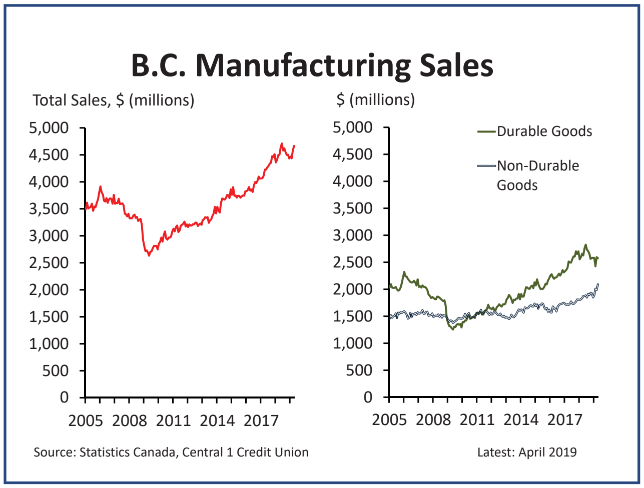
Source: Statistics Canada, Central 1 Credit Union

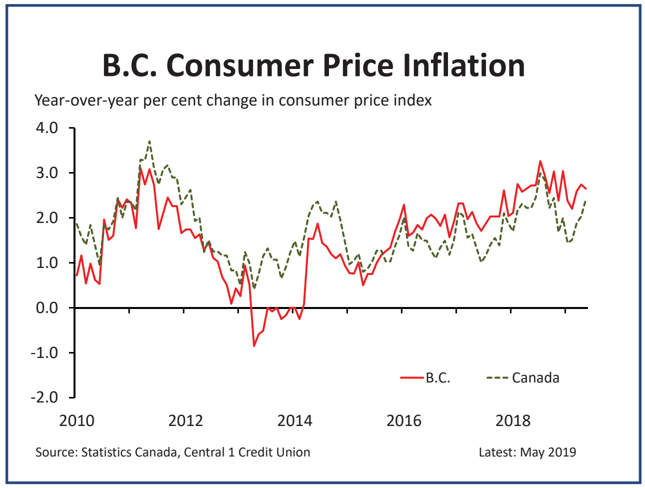
Latest: Q1 2019

1.8 per cent or $84.4 million in April to nearly $4.67 billion (seasonally- adjusted). This followed a 3.3 per cent gain in March and marked the strongest level of sales since June.

Non-durable goods sales drove entirety of the April's gain with an increase of 5.3 per cent or $105.3 million to $2.09 billion. Key drivers of this increase are not known as some sector data is suppressed for confidentiality reasons. That said, it likely was driven by petroleum and coal products. Food product manufacturing rose three per cent or $20.3 million which was a significant driver, while paper products pulled back 1.1 per cent or $5.1 million from March.

In contrast, durable goods production edged lower by 0.8 per cent or $20.8 million to $2.57 billion. A sharp retrenchment in machinery production of seven per cent ($18.4 million) to $282 million led the drop, but this marked a reversion back to trend after a strong March increase. Slumping durable goods manufacturing since mid-2018 has largely reflected the forestry sector, which is facing timber supply issues, low prices and U.S. softwood lumber tariffs. This has led to elimination of shifts and curtailments at various sawmills,





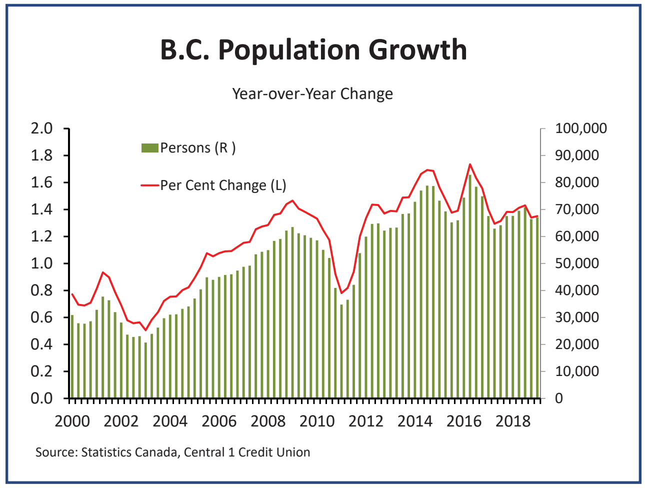
and permanent closures across the province. While wood product production fell 1.1 per cent from March, seasonally-adjustment sales are down 26 per cent from mid-2018. The forestry sector faces significant challenges going forward. In contrast primary and fabricated metal production has been improved with rising prices this year, and recent years expansion in capacity. Removal of U.S. steel and aluminum tariff in May will likely provide more a of boost going forward.

Through the first four months, total manufacturing sales were up a modest 1.6 per cent. An eight per cent increase in non-durables production has offset a three per cent drop in durable goods activity. The competitive Canadian dollar continues to support export demand for manufacturing, but a weak lumber demand environment and related supply constraints, and global trade uncertainty are ongoing headwinds.

Price inflation holds steady in May

B.C. consumer price inflation edged lower in May despite firming for the country as a whole. Year-over-year growth in the consumer price index (CPI) edged down to 2.6 per cent from 2.7 per cent in April. In contrast, national CPI inflation rose from 2.0 per cent to 2.4 per cent. B.C. inflation was second highest next to Manitoba at 2.8 per cent.

Key drivers of higher B.C. CPI inflation included higher food prices which accelerated to a 3.4 per cent year-over-year pace from 3.2 per cent in April, driven in large part by acceleration in seafood prices (up 4.5 per cent) and high inflation for produce prices (up 11.8 per cent). On the housing front, shelter-related costs eased from a 2.7 per cent rate to 2.5 per cent. While household face rising rent costs (up 3.1 per cent year-over-year from 2.7 per cent in April), this has been offset by a contraction in homeowner replacement costs (down 1.2 per cent). A weak homeownership market has curtailed prices, while the rental market



remains tight.

Gasoline prices were also less of an inflation factor. Year-over-year growth eased from 6.3 per cent in April to 3.9 per cent in May, although levels do remain elevated. Natural gas however rose 11 per cent.

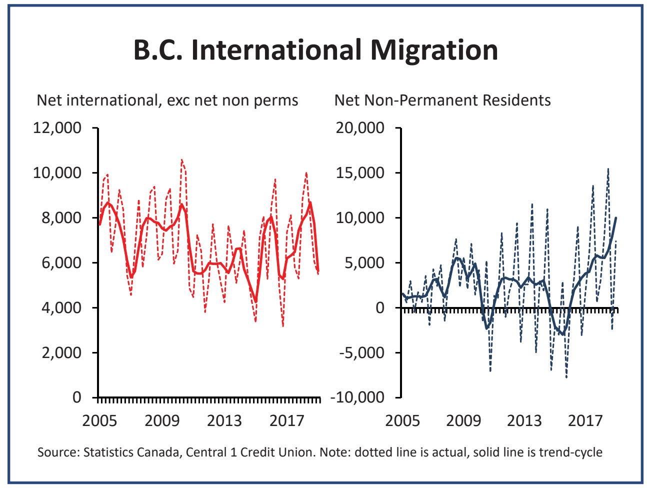
Non-permanent residents drive population growth in Q1

B.C.'s population growth rate held steady in the first quarter rising at a year-over-year pace of 1.3 per cent. This represented a gain 67,107 over the latest four quarters, swelling the population to 5.034 million persons as of April 1, 2019. Relative to January 1, B.C.'s population increased by 14,180 persons.

Population gains continue to be driven by migration, but more specifically a rising trend of non-permanent residents which includes students, working visas, refugees and others. During the fourth quarter, net non-permanent residents climbed to 7,396 persons which more than doubled year ago levels and reversed a sharper drop in the fourth quarter. This gain offset a decline in traditional international immigration, which slowed. Net interprovincial migration finally picked up following two consecutive quarterly declines which likely reflects persistent strength in B.C.□s labour market vis-à-vis its Canadian peers. That said, the net increase of 1,000 persons in the first quarter remains disappointing down 25 per cent same-quarter 2018.

On a four-quarter basis, net migration has accounted for more than 90 per cent of gains over the past year. Net international migration (excluding non-permanent residents) reached 29,500 persons over the period which was about five per cent higher than observed a year ago. Net non-permanent residents totaled 28,577 to rival traditional international migration flows. Interprovincial gains have been soft at 3,577 persons, which was about a third of comparable figures from same-quarter 2018.

B.C.'s population growth is expected to remain steady near a 1.3 per cent rate. Elevated levels of temporary residents will likely continue as schools in the region remain in high demand for international students and individuals from abroad secure employment in the region's hot labour market on working visas. While prone to reversal, changes to immigration policy will mean many students and workers will ultimately stay in the country to become permanent residents, contributing to long-term economic growth and providing much needed supply to the labour market. Interprovincial migration is also expected to climb modestly as major project construction on liquefied natural gas terminals and other public works projects attract households to the region.



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