B.C. Economic Briefing

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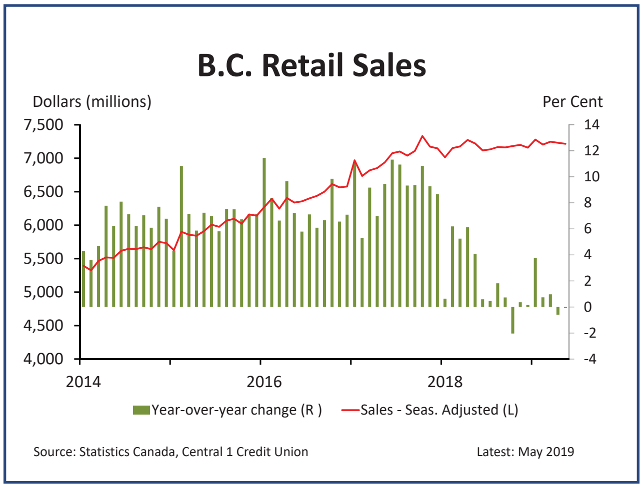
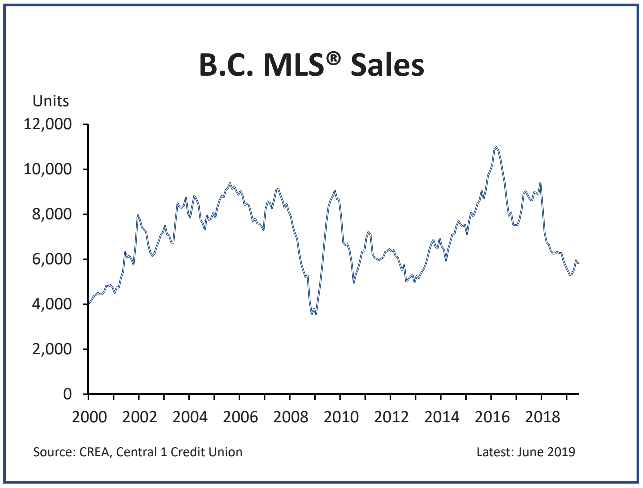
Highlights:

- Retail sales edge lower in May, weak trend continues
- June MLS® home sales slip after May rebound
- Drop in metal production curtails manufacturing activity
- Consumer price inflation steady at 2.6 per cent





B.C. retailers post second consecutive monthly decline in May

Retail sales in B.C. disappointed again in May with a second straight monthly decline and third in four months to extend the soft pattern observed over the past year. Total sales reached $7.22 billion (seasonally- adjusted), marking a 0.2 per decline from April and a 0.1 per cent decline from same-month 2018. Nationally, sales fell 0.1 per cent from April, but rose one per cent from a year ago.

Weaker May sales reflected a decline in housing-related spending on furniture, furnishings, electronics, appliances and clothing. Sales gains at general merchandisers and automobile sales following an April pull back offset some of the declines.

Year-to-date, sales rose a mild 1.2 per cent, but fell by roughly one percent through the first five months when accounting for retail sector inflation sales. The main drags included sales at motor vehicle and parts dealers (down 2.6 per cent) and building material, garden equipment, and supplies dealers (down 3.2 per cent). This has been offset by gains in sectors such as health and personal care stores (up 3.7 per cent) and general merchandisers (up 5.5 per cent). Vancouver metro area sales have underperformed with a 0.9 per cent year-to-date decline driven largely by a sharp decline in auto-related sales (down 8.6 per cent). In contrast, sales in the rest of the provinces rose three per cent.

Ongoing sluggish B.C. retail sales suggests a slowdown in consumer demand despite what has been strong labour market conditions and employment growth. The sharp decline in housing sales volume has been a driving factor of spending declines in related sectors, while lower prices may also be leading to spending belts being tightened. Auto sales have decelerated following strong performances in recent years as replacement demand has eased. Going forward, labour market conditions will remain supportive of retail sales activity, while the housing sales cycle has likely bottomed. Consumers have also increasingly shifted purchases to the online space which is not well captured in this data. Nationally, online retail sales rose 32 per cent year-over-year in May, compared to the one per cent headline national gain. Online sales still only represent three per cent of total retail trade.

B.C. home sales decline following May rebound

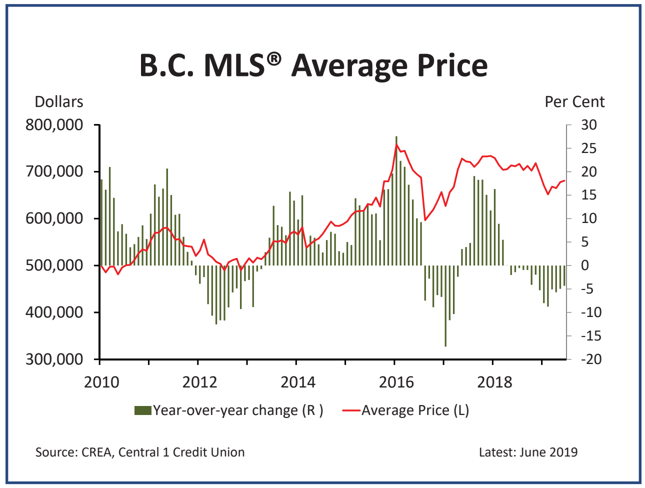
Consistent with data for the Lower Mainland released earlier this month, MLS® home sales in most areas of the province backtracked in June following a May rebound. Sales fell 2.3 per cent to a seasonally- adjusted 5,819 units. With signs that a cyclical bottom has passed earlier in the year, sales remain low and trending at a pace seen in 2013. Year-over-year sales (unadjusted) were down 11.7 per cent from same-month 2018 compared to flat national sales.

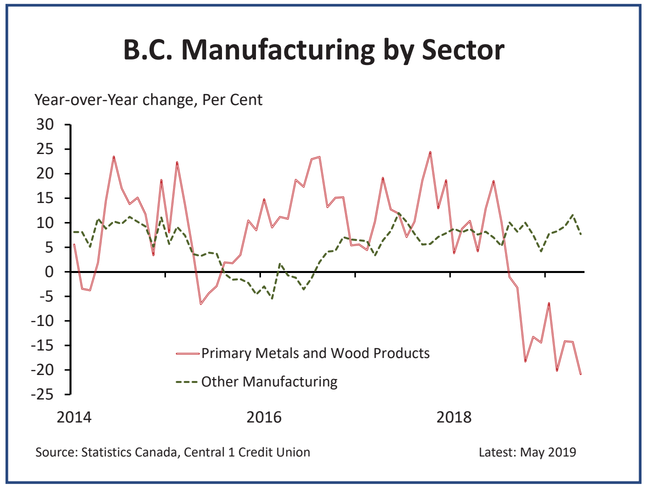
Regionally, June's monthly pullback was widespread. Sales in the Greater Vancouver real estate board area fell (down 5.5 per cent), while Vancouver Island excluding Victoria (down 5.5 per cent) and Victoria (down 1.9 per cent) also contributed to the drop. Sales in the central and southern interior decreased as Kamloops (down 7.2 per cent) and Kootenay (down 4.9 per cent) gave back some of May gains. The South Okanagan real estate board area also retreated (down 5.5 per cent). Year-over-year declines are concentrated in Metro Vancouver, the Island and parts of the southern interior.

The weak sales environment reflects several factors. Federal mortgage stress tests continue to weigh on homeownership activity as households are constrained in borrowing capacity, particularly in higher priced markets. Various provincial measures including the expanded foreign buyer tax and speculation tax are impacting markets across the province. Declining prices in markets also has buyers wary of jumping back in too soon. Weak conditions in the Lower Mainland may be contributing to lower sales in recreational and retiree markets. Declining mortgages rates are providing a boost for buyers, but loan capacity remains stunted by stubbornly high posted mortgage rates due to the stress test.

Sales-to-inventory ratios are low in the Lower Mainland and central interior markets, which points to buyers' market conditions, although relative supply is low on Vancouver Island. Prices reflect these conditions. While the average provincial prices edged up 0.4 per cent to $680,856 from May, levels declined in the Greater Vancouver real estate board area and in most of the interior markets. Year-over-year, prices fell four per cent.

Constant-quality housing price indices—a better gauge of price trends available for select markets—point to declining trends, albeit with regional differences. Unadjusted, price levels fell 1.2 per cent from May in the Lower Mainland and 8.5 per cent year-over-year. Island area prices were flat from May with levels in Victoria unchanged on a 12-month basis and up four per cent elsewhere on the Island. Okanagan area prices fell 0.5 per cent from May on a year-over-year basis.

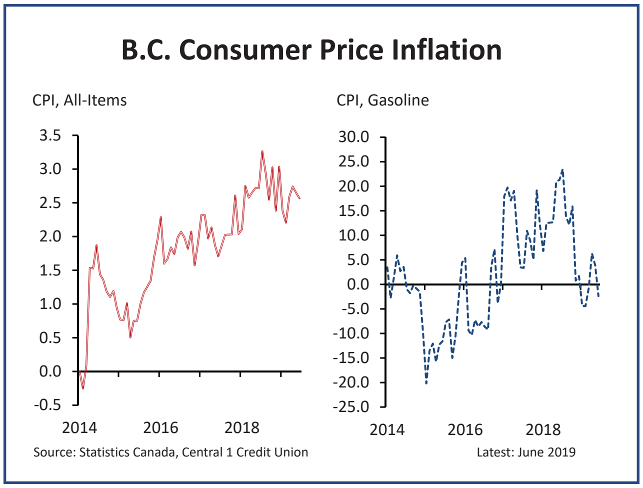




Metal production slows B.C. manufacturing in May

Following two months of improvement, B.C. manufacturing sales backtracked in May with a 1.6 per cent decline to a seasonally-adjusted $4.57 billion. Despite the drop, recent manufacturing gains were maintained pointing to improved performance in the second quarter after a weak start to the year. That said, sales were down 1.3 per cent from same-month 2018 compared to a three per cent national gain.

Non-durable goods shipments made up 60 per cent of May's monthly decline with a 2.4 per cent drop from April to $2.02 billion. From available data, food shipments (down 2.4 per cent) and paper (down 2.2 per cent) contributed to most of the drop. It is likely petroleum and coal products also fell, but data is unavailable. Durable goods manufacturing sales declined 1.4 per cent to $2.54 billion but owed almost entirely to a 13 per cent pull back in primary metals, with mixed sales growth among other sectors. Wood product sales were little changed from April but were down 24 per cent on a year-over-year basis.



Despite recent strength, manufacturing activity is subdued with sales up a mild 1.1 per cent ($246.2 million) through the first five months pf 2019, albeit with significant variation among sectors. The main drag has been wood products, which fell 17 per cent through the first five months (down $905 million), alongside a 9.1 per cent ($151 million) drop in primary metal production. Weaker global growth has hampered metal prices, while the wood product sector has seen plunging lumber prices and lower production due to soft demand and excess inventories. Forestry struggles are further discussed the recent Central 1 Economic Commentary . Excluding these two sectors, shipments rose 8.7 per cent over the period with the favourable Canadian dollar providing support for related export demand, while previous prior investment has lifted industrial capacity.

Elevated inflation persists despite decline in gas prices

Consumer price inflation in B.C. was largely unchanged in June with year-over-year growth in the consumer price index (CPI) at 2.6 per cent—a touch lower than observed in May. Steady CPI inflation in B.C. bucked the national trend which saw a sharp decline in inflation to 2.0 per cent from 2.4 per cent in May. Declines were observed in all provinces outside B.C. and largely reflected a drop off in energy prices due to lower global oil prices and the elimination of carbon pricing in Alberta in May.

Like other regions, a sharp drop in gasoline prices (down 8.4 per cent from May and 2.4 per cent, year-over-year) dampened prices. Aggregate price growth in other segments remained firm at 2.8 per cent. Food prices accelerated to 3.6 per cent year-over-year from 3.4 per cent in May, which was led by rising produce prices (up 11 per cent) and restaurant meal costs. Meanwhile, rental accommodations costs increased 4.1 per cent and household operation costs increased from 1.7 per cent to 2.5 per cent. Key drivers of the latter included a sharp increase in childcare and housekeeping services (up 8.8 per cent from 5.7 per cent in May). Areas with lower inflation included clothing and footwear (up 1.1 per cent).

Price inflation remains strong in the services sector at 2.9 per cent compared to a 2.0 per cent increase in the goods sector. Relatively strong labour market conditions and higher taxes are likely being passed through to consumers. Goods prices are held back via lower gas prices and other factors such as price competition among brick and mortar and online retailers.

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