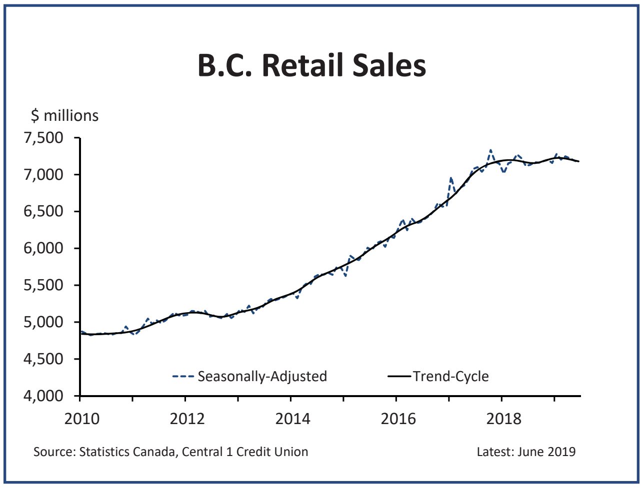
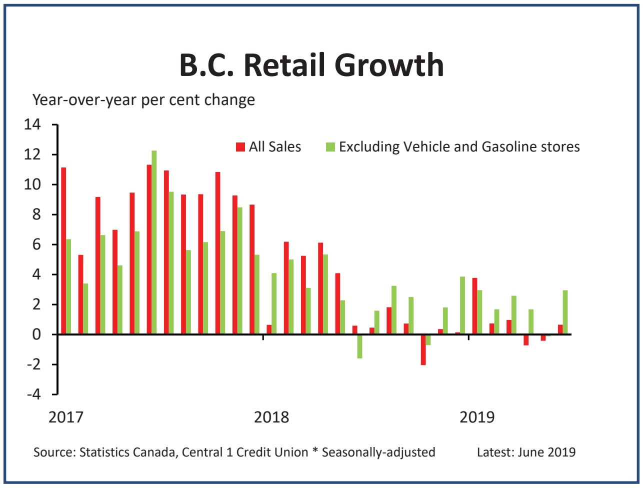
B.C. Economic Briefing

Volume 25 • Issue 34 • Week of August 19 - 23 2019 | ISSN: 1981-355

Highlights:

- Retail sales soften, driven largely by vehicle purchases
- Manufacturing sales decline 0.7 per cent in June on forestry slump
- CPI inflation declines to 2.1 per cent
- International tourism elevated despite declines from China
- EI counts confirm tight labour market





New vehicle sales continue to drag on retail spending in June

B.C. retailers posted another down month in June as sales volume declined 0.4 per cent from May to $7.16 billion, while year-over-year growth was a negligible 0.7 per cent. This was not much different than the national picture, which showed no gain on a monthly basis, and a 1.0 per cent year-over-year increase. Retail spending in B.C. has held range-bound for more than a year and has been eroding at an annualized pace of nearly five per cent over the past three months.

June's sale decline was predominantly led by further declines in vehicle related sales, which fell 5.1 per cent year-over-year, and by 1.6 per cent seasonally-adjusted from May by our calculation. Gasoline sales were also a drag, which is largely price driven. Excluding these segments, sales improved, with a three per cent year-over-year gain and a one per cent increase from May.

Through the first six months, B.C. brick and mortar retail sales growth came in at a disappointing 0.6 per cent, and negative once inflation has been factored in. Like June figures, this decline can be attributed to the slump in new vehicle purchases with related retail sales down 6.8 per cent ($574 million) over the first six months, as well as building materials and garden sales at equipment and supplies dealers down 3.9 per cent. Furniture sales growth has been negligible at 0.2 per cent. In contrast, solid growth was observed in most other retail segments including a near six per cent increase at general merchandisers and a 2.8 per cent at food and beverage stores. This divergence in trends reflects solid demand for general purchases due to a strong labour market and population growth, but a drag from a slow housing market, and some aversion to debt accumulation.

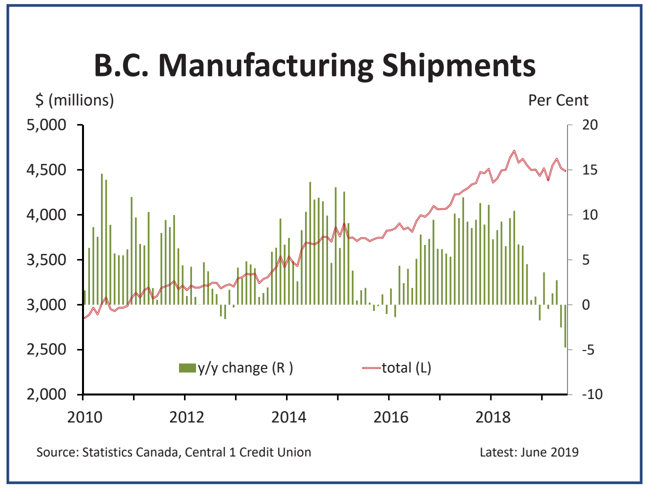
Regionally, Metro Vancouver sales have led the slump with sales down 1.3 per cent, compared to an increase of 2.3 per cent in the rest of the province. New vehicle sales in the former were down a whopping 14 per cent. Interestingly, housing related sales in the region outperformed the rest of the province with positive gains.

Manufacturing softens in June

B.C.'s soft manufacturing trend continued through June as shipments fell for the second straight month. Factory sales reached a seasonally-adjusted $4.49 billion, marking a 0.7 per cent, or $30.4 million, decline from May and 4.8 per cent decline on a year-over-year basis. In comparison, Canadian shipments fell 1.2 per cent from May with the sharpest declines in the Prairies and Atlantic Canada.

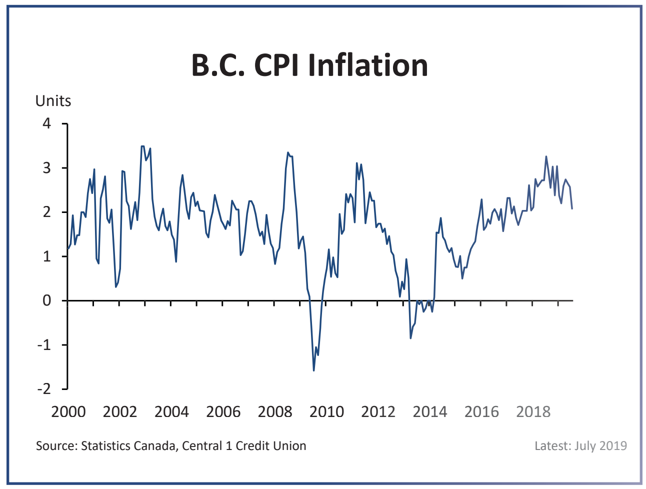
Lower sales in the struggling wood products sector (down 3.5 per cent) and paper manufacturing (down 11.7 per cent) accounted for the net decline with a combined drop of $82 million. Gains among other sectors provided a substantial offset, with growth in primary metals (up 6.4 per cent) and fabricated metals (up 8.7 per cent), production and various electronic and computing products.

Despite two months of declines, sales improved over the second quarter with a 1.3 per cent increase over the first quarter. That said, first half manufacturing shipments fell 0.7 per cent from a year ago. Wood products are down 21 per cent, primary metals production is down 10 per cent and paper shipments are down 7.0 per cent. The forestry sector is grappling with low prices, weaker U.S. demand, timber supply issues and higher input costs, which has led to permanent closures of mills this year. Slowing global growth is also impacting commodity related sales. In contrast, sales for other intermediate and consumer goods continues to grow, reflecting the steady domestic economy and export demand from a low Canadian dollar.

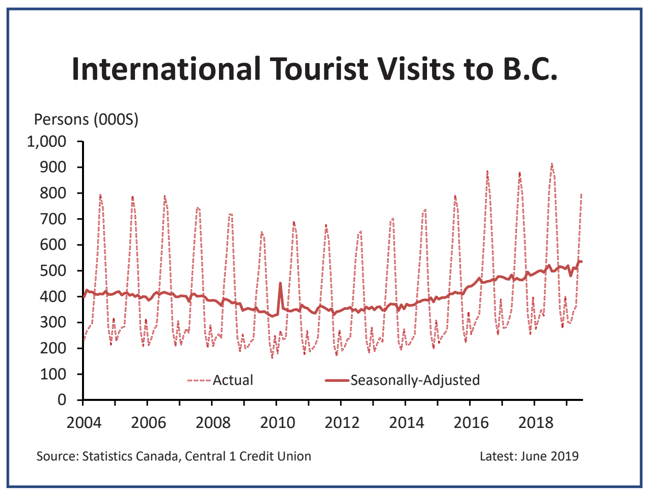


CPI inflation slips to 2.1 per cent in July

Canadian headline inflation was unchanged in July with the consumer price index (CPI) up 2.0 per cent year-over-year. On a month-to-month basis, CPI inflation accelerated to 0.4 per cent, largely reflecting a base period effect as price levels declined in June. Core inflation measure was watched closely by the Bank of Canada and was little changed from June.



Contrasting with the steady national picture, B.C. CPI inflation decelerated sharply. CPI inflation slowed from a year-over-year gain of 2.6 per cent in June to 2.1 per cent in July. Most of this deceleration reflected a base year effect as the CPI surged last July. That said, the underlying CPI price trend has slowed in recent months. August headline inflation is expected to rebound slightly.



Slower year-over-year inflation was driven by gasoline prices which fell 4.9 per cent year-over-year, compared to a 2.4 per cent drop in June. Housing was also a drag, with homeowner replacements costs down 2.2 per cent owing to lower home values. Mortgage rates have also declined. In contrast, consumers continue to pay significantly more for food (up 4.6 per cent) and rent (up 3.0 per cent) from a year ago.

Rising U.S. visits keep tourist inflows high in June

Tourism remains a solid growth sector for B.C.'s economy, as international tourist visits remained high in June following a record May performance. The number of tourists entering Canada through B.C. reached 535,344 individuals (seasonally-adjusted) in June. While edging lower from May, this was up 2.7 per cent from same-month 2018. The flow of U.S. visitors continued to rise, offsetting a decline in overseas visitors. That said, the latter remains near record highs.

Year-to-date, tourist visits are up 2.4 per cent, with U.S. visits up 1.6 per cent and overseas visitors up 3.6 per cent. The latter has been lifted by strong growth in tourism from countries like Mexico, India, Australia and the UK. These gains have offset a slump in the number of visits from China. A low Canadian dollar continues to support tourist demand, while Canada is likely seen as an attractive destination relative to the U.S. due to political considerations and increased turmoil in other countries. A pullback in the number of Chinese visitors may reflect current political tension between Canada and China.

Employment insurance counts steady

Low unemployment and a tight labour market are prevalent themes in B.C.'s economy and confirmed by a low number of employment insurance beneficiaries. While June counts edged higher by 0.5 per cent from May to 40,670 persons (seasonally-adjusted), levels were down 2.2 per cent from a year ago, and remained near cycle lows.

Relative to May, beneficiary counts climbed across both metro areas and smaller urban and rural areas. Abbotsford-Mission posted a 1.6 per cent increase and Vancouver posted a 0.9 per cent increase, while Kelowna and Victoria posted declines in the number of beneficiaries. Year-over-year EI counts were broadly lower across areas.

Total claims received slipped from May and were up 3.5 per cent year-over-year and trending modestly higher than a year ago levels. While this could reflect some labour market deterioration in labour market, levels are still low on a historical basis, and some of the gain may reflect a rising population and in-migration.

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