B.C. Economic Briefing

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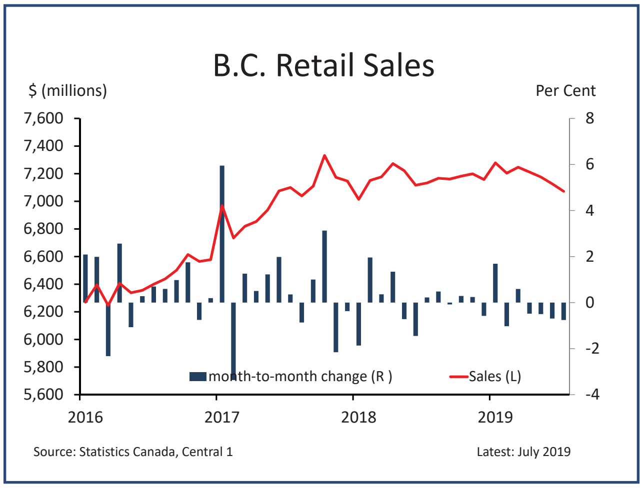
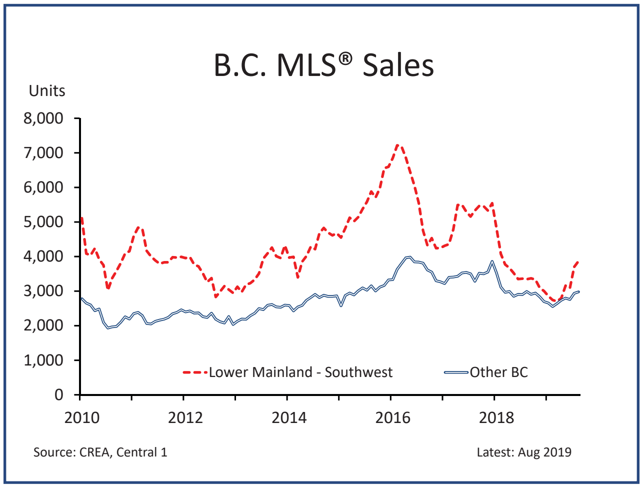
Highlights:

- Retailers report soft sales in July
- MLS® home sales rising on improved affordability
- Forestry hurt hampers manufacturing activity
- Consumer price inflation eases in August but food prices rise sharply
- Employment insurance counts pick up in small markets





Retail sales decline across sectors in July

B.C. retail conditions deteriorated again in July pointing to caution on the part of consumers despite a firm labour market amidst broader economic uncertainty. Sales at brick and mortar stores declined 0.8 per cent, both on a monthly and year-over-year basis to $7.07 billion. This marked a fourth straight contraction and sixth decline in the course of eight months. Sales were the lowest since January 2018.

July sales declines were spread widely among store segments. Based on our calculations, notable seasonally- adjusted sales declines from June were observed at motor vehicle and parts dealers (down 0.8 per cent), home furniture and furnishing stores (down 2.5 per cent) and building materials and gardening stores (down 2.5 per cent). General merchandisers posted sales declines of 3.2 per cent. Lower gasoline prices also cut into headline sale figures.

Regionally, Metro Vancouver sales growth outpaced the rest of the province with a 0.5 per cent monthly gain to $3.28 billion, while sales in the rest of the province declined 1.8 per cent.

Year-to-date, sales are up only 0.5 per cent with vehicle sales and housing related activity the main drag. Accounting for inflation, real retail trends are negative. Metro Vancouver retail sales are down 1.1 per cent over the period, owing mostly to the motor vehicle drag, while sales are up two per cent elsewhere in B.C. Annual provincial sales are likely to be unchanged this year marking the weakest growth since 2009, although sales declined a whopping 4.5 per cent that year.

The weak trend in retail sales is a troubling signal for consumer demand, and by extension, economic growth. Weakness reflects the drag of economic uncertainty, indirect impacts of the slower housing market on related sales and some aversion to debt accumulation on the part of households. That said, soft headline growth was concentrated in vehicle sales which are largely imported into B.C. Excluding vehicle and gasoline sales, year-to-date sales growth was a decent two per cent pointing to mild growth in underlying consumer demand underpinned by employment gains and population growth

Mild recovery in home sales continues

While still lagging the recoveries of its provincial peers, B.C. home sales continued to rebound in August albeit remaining shallow and below the long-term trend. MLS® sales rose 3.2 per cent from July to a seasonally-adjusted 6,849 units according to the Canadian

Real Estate Association. This marked the fifth gain in six months and an eight per cent gain from same-month 2018. Following a policy induced downturn in the housing cycle, demand is rising on a sharp decline in mortgage rates over the past year, healthy gains in employment and the population, and lower prices in markets like the Lower Mainland.

Sales rose from July in most regions of the province, led by a 4.5 per cent gain in the Lower Mainland-Southwest markets and a 6.0 per cent gain in Victoria. Activity in the Kelowna anchored Okanagan- Mainline with a 3.6 per cent gain. Fewer sales were recorded on Vancouver Island (excluding Victoria) which fell 1.5 per cent, and in the South Okanagan which fell 6.3 per cent. However, these drops followed strong prior month gains.

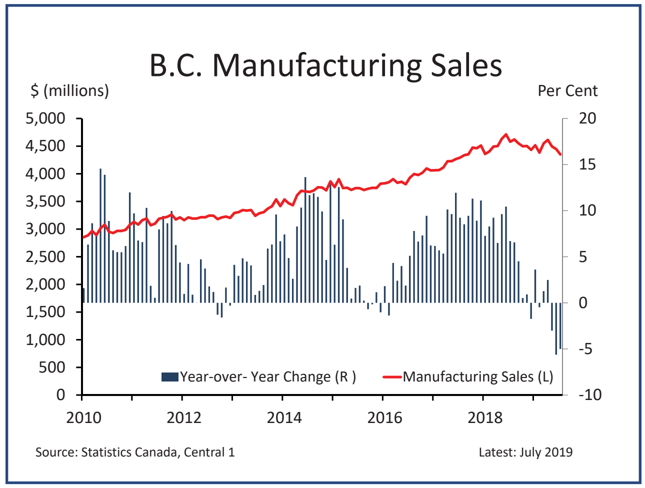
Year-to-date sales were 12 per cent lower than an already sluggish 2018 with significant declines across the province.

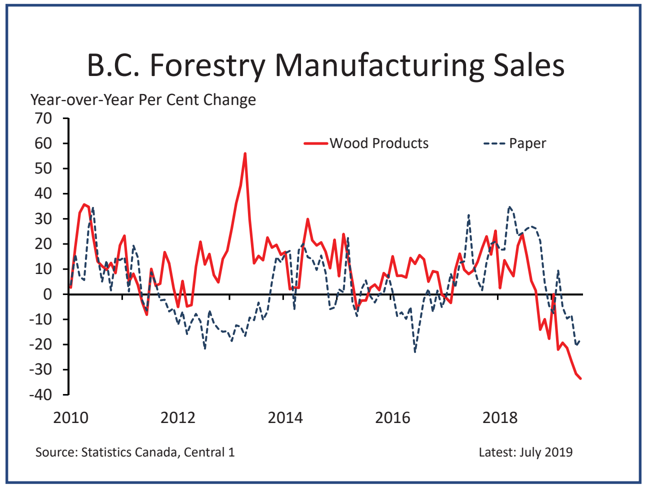
New listings rose 4.6 per cent following three months of declines, suggesting sellers are more confident in the market. Active listings are edging lower and sales-to-active listings ratios are pointing to a firming of market conditions. The Lower Mainland-Southwest is trending at a level typically aligned with a balanced market, while the Island remains supply constrained.

The average provincial MLS® price rose 2.1 per cent to $714,447 marking a fourth straight monthly gain and 1.5 per cent above a year ago. Prices rose in 9 of 12 real estate board areas from July, with stronger growth in Victoria (up 7.6 per cent) and the Fraser Valley (up 3.5 per cent). Lower Mainland-Southwest average prices remain lower than a year ago, with prices up in most other parts of the province.

Benchmark values, which are less prone to the volatility of average values and adjust for housing characteristics, pointed to a firming in Lower Mainland price levels to $931,300 or 0.2 per cent from July, but still seven per cent lower than a year ago. Vancouver Island, excluding Victoria, rose 0.7 per cent from July and 3.7 per cent from a year ago, while Victoria prices edged lower and held steady on a year-over-year basis.

Further sales improvement is expected given the low interest rate environment and labour market. The federal First Time Homebuyer Incentive (shared equity) is a further support in lower priced markets. Prices are expected to stabilize with firming sales.





Manufacturing sales decline in July on forestry drag

B.C.'s beleaguered forestry sector continued to drag on headline manufacturing sales in July. Factory sales declined to a seasonally-adjusted $4.35 billion in July marking a 2.2 per cent drop (or $96.2 million drop) from June. On an actual unadjusted basis, sales fell 3.3 per cent year-over-year.

Nearly half of the monthly declines owed to a 5.7 per cent decline in wood product manufacturing, with year-over-year sales down 33 per cent. Lumber producers have been hammered by low market prices, lack of timber supply and elevated input costs owing in part to high stumpage fees, which leads to mills shuttering permanently or undergoing significant downtime. Other sectors contributing to July's dip included fabricated metals (down 7.0 per cent from June), primary metals (down 2.2 per cent) and food products (down 1.4 per cent). Paper production partly rebounded after an 11 per cent drop in June.

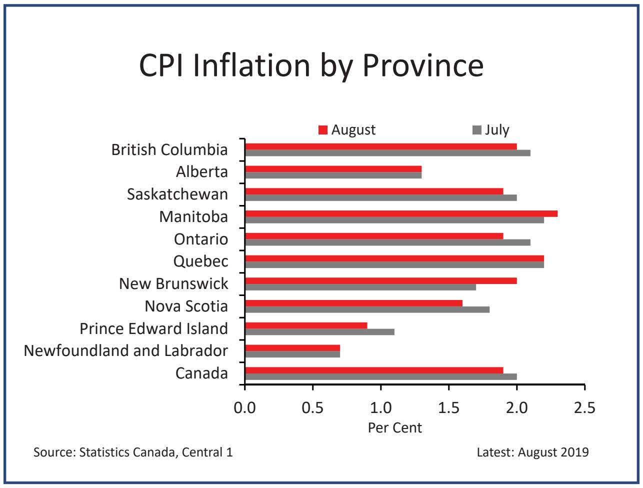
The slump in resources, reflecting the forestry downturn and global economic weakness weighing on mining products, has contributed to a slip in year-to-date sales of 1.2 per cent. Combined forestry products and primary metals sales are down 17 per cent, with remaining sectors up 10 per cent. With declines in these sectors, manufacturing has been concentrated outside Metro Vancouver. Regionally, sales rose 4.7 per cent through July in Metro Vancouver, while manufacturing fell 6.4 per cent in the rest of the province reflecting the sector concentration of the downturn. The drag on manufacturing is likely to continue due to broad economic uncertainty and weak forestry environment.

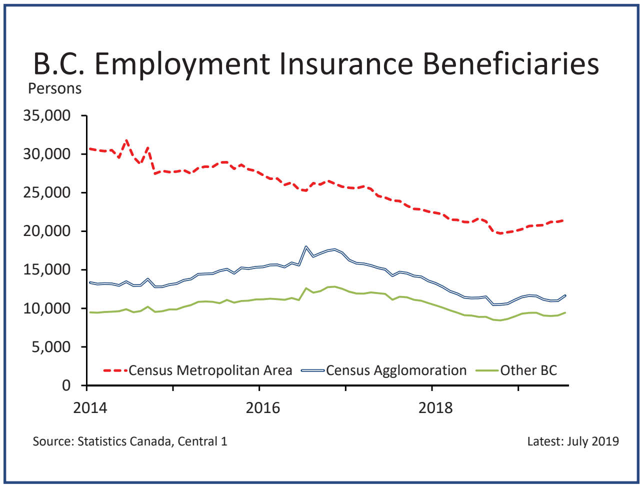
Consumer price inflation tame in August

Headline inflation in B.C. eased to the slowest pace in more than two years in August as year-over-year growth in the consumer price index (CPI) fell to 2.0 per cent from 2.1 per cent in July. Nationally, CPI inflation fell to 1.9 per cent from 2.0 per cent. B.C. was third highest among provinces alongside New Brunswick. Similar to other provinces, August deceleration reflected an easing in price levels from July. Seasonally-adjusted CPI fell 0.1 per cent according to Central 1 calculations.

Recent drag on year-over-year CPI growth has been driven by lower gasoline prices, which were down 4.7 per cent from a year ago. Excluding this component growth, consumers have seen price levels rise to a firm 2.3 per cent. This was driven in part by a surge in food prices which is surely pinching consumer wallets. Food prices rose 4.0 per cent, with meat prices up 6.1 per cent and fresh vegetables up 17.1 per cent. Among other notable drivers of growth was home rents which rose 3.3 per cent, while owned accommodation costs have slowed to 1.2 per cent reflecting softer pricing conditions and declining mortgage rates over the past year. Utilities costs have also jumped with natural gas prices up 10 per cent and water costs up 3.9 per cent. Childcare prices rose 8.8 per cent, public transit costs rose 7.6 per cent and private transport rose a mild 1.4 per cent due to lower gas prices. Broadly, both goods and services are growing at a comparable rate near two per cent.

The CPI measures general price levels in the economy and is weighted by average household spending in the economy. While the current inflation reading remains firm driven by decent growth in the economy, given strong price gains in various components, lower income and younger households are likely feeling greater strain from price gains.





Smaller markets see uptick in unemployment in July

Employment insurance (EI) counts in B.C. posted a notable pick up in July with the largest single-month gain since July 2016 according to the latest Statistics Canada data. The number of residents receiving regular EI benefits rose 2.9 per cent (or 1,190 persons) from June to a seasonally-adjusted 42,510 persons. Similarly, the number of claims received in July also gained traction with a two per cent monthly gain and a 11 per cent year-over-year increase, contributing to the increase in EI recipients.

While still low and aligned with a firm labour market, this was the first year-over-year gain in beneficiaries in more than two years. Rising claims may lead to an increase in beneficiaries going forward and signals mild deterioration in the labour market. That said, the unemployment rate trends below five per cent, while employment share of the population remains elevated.

Regionally, higher EI counts were driven by areas outside Metro Vancouver. Kelowna (up 2.8 per cent) and Victoria (up 3.8 per cent) posted monthly increases, but levels remained below year ago levels. Smaller census agglomerations markets—markets with 10,000 to 100,000 persons—posted substantial gains with a 5.8 per cent increase in counts, while rural areas posted a 3.9 per cent increase in counts from June. Levels were up year-over-year in these regions. Among smaller markets, Port Alberni posted a surge in EI beneficiaries (up 100 persons or 35 per cent from June), while Prince George counts increased 140 persons or 11 per cent. Squamish (up 19 per cent), Quesnel (up 14 per cent), Dawson Creek (up 11 per cent) and Campbell River (up 10 per cent) also saw relatively strong increases, although the number of affected people remained modest. A downturn in the forestry sector may be driving much of this increase in unemployment.

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