

Highlights:

- B.C. brick and mortar retail sales lose ground in September, e-commerce rising
- Food prices prop up consumer price inflation
- Manufacturing sales bounce higher by 3.7 per cent, trend still weak

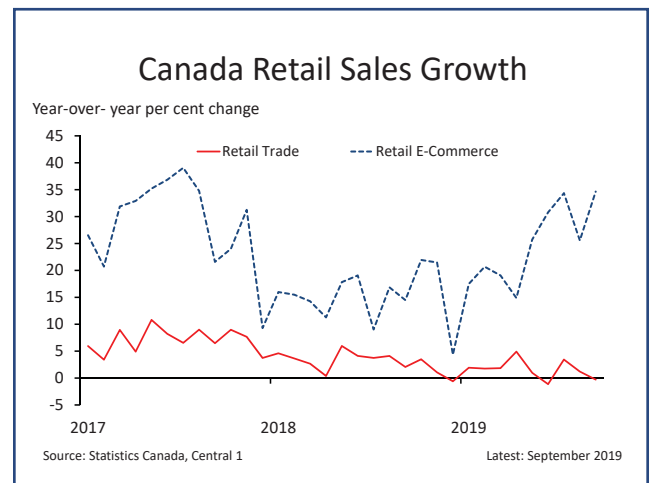
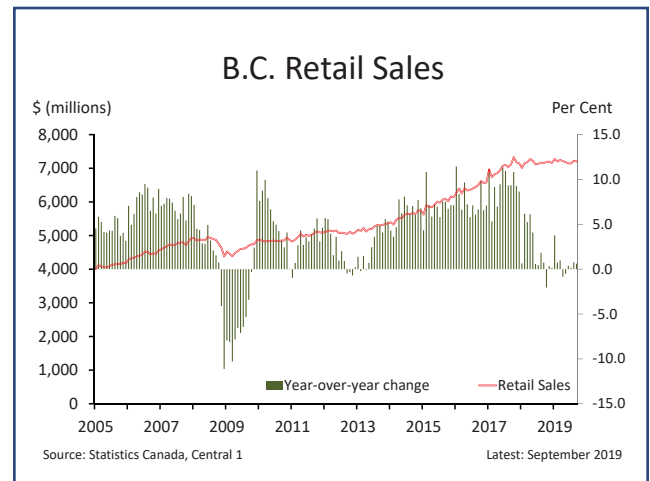
Retail sales deteriorate in September

Soft retail sales continued through September as sales volume at brick and mortar stores edged lower. Following a one per cent gain in August, sales edged down by 0.2 per cent to \$7.2 billion, with year-over-year growth at an anemic 0.6 per cent. Retail trends have held range-bound since early 2018.

Slower sales in most retail segments contributed to September's dip. Year-over-year sales deteriorated in the motor vehicle and parts stores which fell 4.7 per cent, while sales fell 4.3 per cent at home furniture and furnishing stores. Clothing stores posted a six per cent year-over-year decline. Gasoline sales fell two per cent owing to lower prices.

Year-to-date sales rose only 0.6 per cent through September and will likely expand by less than one per cent this year, marking the weakest growth performance since a four per cent contraction in 2009 during the financial crisis. Tepid sales this year thus far reflect a 0.9 per cent decline in Metro Vancouver, which owes mostly to a 11 per cent drop in new car sales. Sales outside Metro Vancouver rose a mild 1.8 per cent over the same period.

The disappointing sales environment is at odds with solid employment and population growth, and generally modest economic growth. Likely factors holding back activity include elevated household debt, lower replacement demand for vehicles following stronger sales in recent years, and flow through of fewer home sales on related purchases. Rising e-commerce sales are also pinching sales of traditional retailers. Nationally, retail e-commerce sales rose 35 per cent year-over-year. While still only 3.6 per cent of total retail



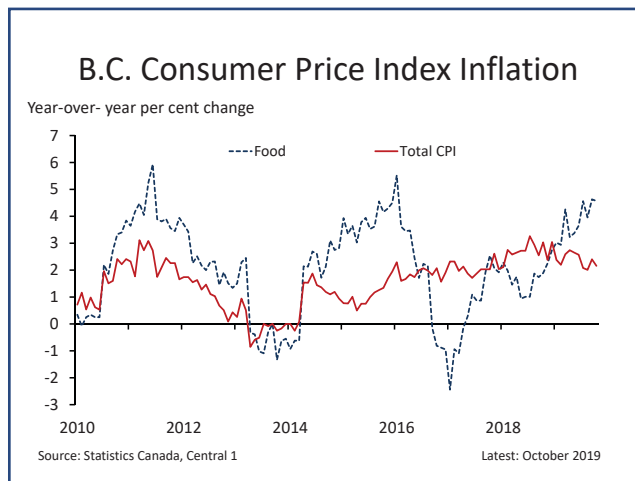
trade, share continues to rise and compares to 2.7 per cent a year ago.

An increase in home sales through 2020, low interest rates, and economic growth is expected to lift B.C. retail sales growth to four per cent in 2020.

Consumer price inflation edges lower to 2.2 per cent

Consumer price inflation in B.C. decelerated in October but held above the national average. B.C.'s consumer price index was above same-month 2018 by 2.2 per cent, down from 2.4 per cent in September. This compared to national inflation of 1.9 per cent, with only Quebec higher at 2.3 per cent. Headline inflation in B.C. has held above two per cent since August 2017 but has decelerated this year from over three per cent observed through the second half of 2018.

Modest headline inflation masks significant differences among products and services purchased by house-



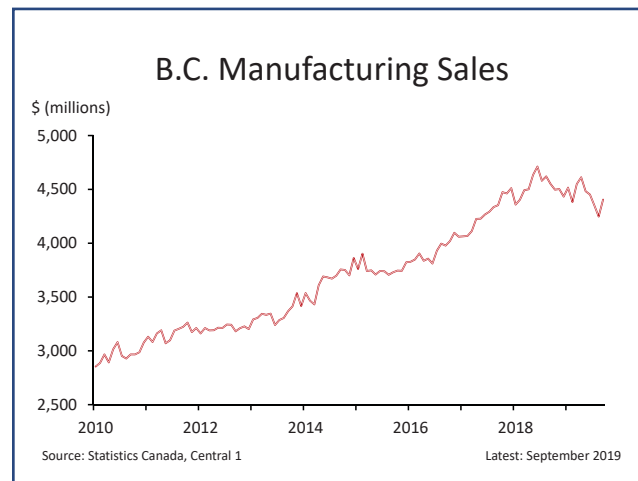
holds. Food prices remain sharply higher than a year ago by 4.6 per cent, driven by significantly increased meat, fresh fruit and vegetable prices. Fresh vegetables prices were up 13 per cent. Natural gas prices rose 10 per cent from a year ago. Offsetting higher gains was relief at the pump, with gas prices down 1.3 per cent from a year ago, while growth in shelter costs was below two per cent. Declines in home values and mortgage rates were drivers of lower shelter costs. Published rent growth was 3.5 per cent, but it should be noted that this at least partly reflects changes in estimation methods for rent implemented in January. Nevertheless, the rent has shown a stronger growth trend this year.

Broadly, goods prices have increased at a stronger pace at 2.3 per cent than services this year (1.9 per cent).

Improvement in manufacturing, but trend negative

B.C.'s manufacturing sector posted an improvement in September sales but continued to struggle under a weak global economic performance and the forestry sector downturn. Dollar-volume sales reached a seasonally- adjusted \$4.4 billion, up 3.7 per cent from August but down 3.2 per cent year-over-year. Sales have been on a downward trend since mid-2018. Nationally, factory sales fell 0.2 per cent from August, and were down 1.2 per cent from a year ago.

Monthly sales growth from August was driven by a 7.3 per cent increase in non-durable good despite a decline in paper production sales (down 2.5 per cent). Not all data is readily available, but growth in food production (up 2.4 per cent), and beverages (up 10 per cent) were positive drivers. It is likely that petroleum products were a positive, but this is not certain due to data limitations. Durable goods growth of only 0.9



per cent was propped up by a partial rebound in wood product sales (up 3.5 per cent), as metal and non-metallic mineral sales declined. Stronger gains were also observed in machinery (up 8.5 per cent), and computer and electronics (up 48 per cent).

Despite the uptick, the trend remains negative. Year-to-date, manufacturing was down 2.2 per cent. Paper production is down 12 per cent and wood production has declined 25 per cent on lower prices and production. Mining-related production has also off year ago levels. Outside of these sectors, sales were up 10 per cent as the low Canadian dollar continues to support other manufacturing activity, particularly machinery, electronics, as well as petroleum and coal.

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