B.C. Economic Briefing

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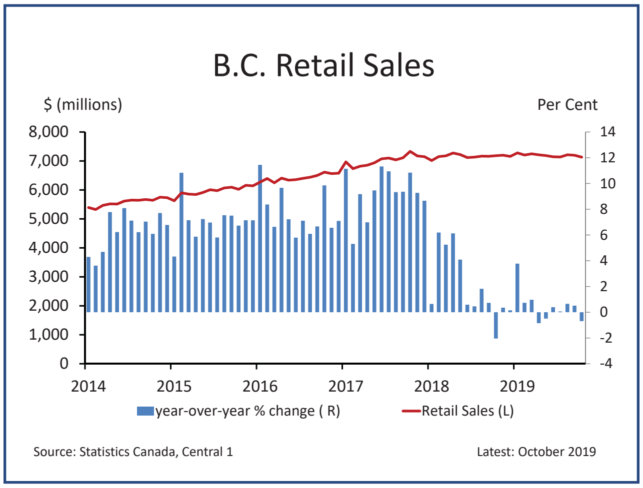
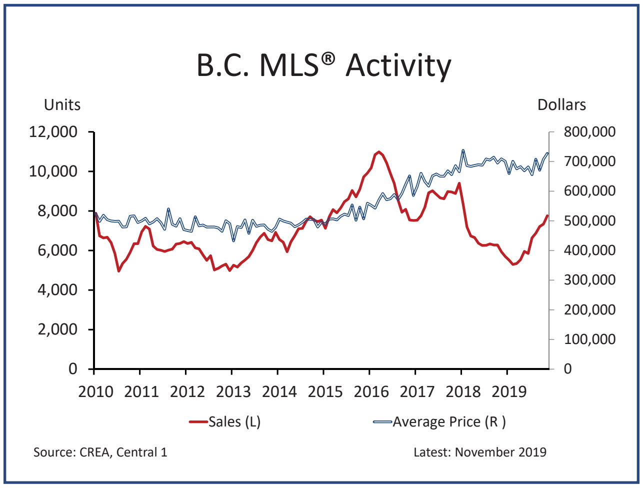




Highlights:

- B.C. retail sales set for weakest annual performance since 2009
- Buyers returning to the housing market in Metro Vancouver
- Pace of hiring growth moderates; employees continue to enjoy pay hikes
- Manufacturing sales slumped in October due to weak forestry sector
- B.C. leads population growth charge

Retailers stumble to start fourth quarter

Retailers are hoping for a better holiday shopping period after a poor sales showing in October. B.C. retailers flubbed the start of the fourth quarter with brick and mortar sales down 0.9 per cent from September to a seasonally-adjusted $7.13 billion. Year-over-year, October sales were in the red with a 0.7 per cent decline compared to a 0.5 per cent increase in September.

This largely aligned with weaker sales across most provinces which led to a national sales decline of 1.2 per cent, and a year-over-year sales drop of 0.6 per cent.

B.C.'s retail sales deterioration in October owed mostly to a decline in motor vehicle and parts dealers (down 5.8 per cent year-over-year), weaker sales at building materials/gardening stores (down 6.1 per cent), and a slip in sales at health stores. Food and beverage stores were unchanged from a year ago, while sales at general merchandise stores rose 8.2 per cent, which offset weakness in other segments.

The latest dip adds to the soft trend in sales observed through 2019. Sales through the first 10 months were up only 0.5 per cent and are set for the weakest annual performance since 2009 when sales contracted more than four per cent. Metro Vancouver has driven this year's decline with a 0.8 per cent dip, while sales rose 1.7 per cent in the rest of the province. Factors curtailing growth have included lower replacement demand for vehicles following stronger performances in prior year, overhang of higher household debt levels, and effects of what was a slower housing market for most of the year which impacted both related spending and consumer confidence. Consumers are also increasingly looking to online retailers, which nationally has seen year-over-year growth of nearly 27 per cent, albeit with market share of about 3.5 per cent.

2020 is expected to be a stronger year for retail spending in the province. A moderately strong labour market, rapid population growth and recovering housing market look to drive a four per cent increase in sales.

Positive momentum in housing market continues

MLS® home sales in B.C. continued on an upward ascent through November and look likely to provide a strong hand off into 2020. In the last housing data release in 2020, sales momentum accelerated. Year-over-year activity rose 27.6 per cent compared to a 19.6 per cent increase in October. Seasonally-adjusted sales increased 5.7 per cent from October to 7,757 units marking a ninth gain in 10 months and the highest level since January 2018. While various federal and provincial policy measures continue to constrain sales, the combination of declining mortgage rates and price cuts in markets like Metro Vancouver, pent up demand, and solid labour market have pulled buyers back into the market.

Seasonally-adjusted monthly sales were up in most regions with a six per cent gain in the real estate board representing the Lower Mainland-Southwest, with a 6.6 per cent increase on Vancouver Island. Okanagan area sales rose 9.5 per cent, while northern B.C. gained 12 per cent after two consecutive declines. The Kootenay was the main blight with sales down 20 per cent from October, although this represents relatively few sales.

The rising sales flow has yet to trigger an increase in new listings, with the trend in decline since May. Lack of new listings and rising sales has led to lower resale housing inventory which provincially has declined since April by 15 per cent and is the lowest in more than a year. Listings are down in most regions but led by the Lower Mainland, Victoria, and parts of the interior.

Tightening market conditions have become more prevalent with sales-to-active listings ratios flashing sellers’ markets in Lower Mainland and Island markets, while much of the interior is at or near balanced. This signals rising price trends in 2020.

B.C.□s average MLS® home price rose two per cent from October to a seasonally-adjusted $745,566. Unadjusted, the average price rose 5.4 per cent year-over-year. A stronger sales rebound in the Lower Mainland region is a factor driving the higher provincial gain, reflecting an increased share of higher priced properties in the average. Benchmark price indices which adjusts for housing attributes but is limited to select markets, point to a rising trend in home values. Benchmark values rose 0.9 per cent from October in Victoria, 0.3 per cent in the rest of Vancouver Island, 0.9 per cent in the Lower Mainland, and was flat in the Okanagan according to the Canadian Real Estate Association.

Employers add to payrolls in October, wages increase

Non-farm payroll counts edged higher in October, marking an improvement in hiring momentum after holding steady the prior two months. Payroll counts rose 0.2 per cent to a seasonally-adjusted 2.36 million persons. Year-over-year, this was a 2.3 per cent or 53,000 person gain which outpaced the national increase of 1.6 per cent but held below growth in Quebec and a number Atlantic provinces.

On the industry-front, services producing sectors have dominated gains, with hiring up 2.8 per cent, while good-producing has nudged higher by less than a per cent. The latter has predominantly reflected a 10 per cent decline in the beleaguered forestry sector, while mining and oil and gas fell two per cent, and the manufacturing hiring was up a scant one per cent. Stronger growth in the services-sector owes to growth in public-sector influenced industries including health care/social assistance (up 4.9 per cent), education (up 6.9 per cent), and public administration (up 5.7 per cent). Professional/scientific/technical services has also been a strong contributor with growth of 5.8 per cent, reflecting in part due to the higher growth technology sector.

While the pace of hiring growth has moderated, employees continue to enjoy pay hikes. Average weekly earnings in the province rose for a fourth straight month, with October seeing a 0.4 per cent increase to $1,012. At 3.3 per cent, year-over-year growth was in line with national gains but middle-of-pack when compared among provinces. Various factors influence weekly earnings, including hours worked, industry and full-time/part- time composition. That said, weekly earnings growth spans most sectors, albeit with weakness in resource sectors. The fixed weighted hourly average hourly earnings index rose nearly four per cent from a year ago, pointing to underlying wage strength, aligning with Labour Force Survey trends, and a low unemployment rate.

Manufacturing sector gives back September gains

Manufacturing sales slumped in October, erasing what proved to be a temporary pick up during the previous month and re-establishing downward momentum. Dollar-volume manufacturing declined 3.6 per cent from September to a seasonally-adjusted $4.26 billion, marking a 5.4 per cent decline from a year ago. Comparatively, national sales eased 0.7 per cent from the previous month and 2.1 per cent, year-over-year.

October’s pullback largely reflected deterioration in the forestry sector and reversal of prior month gains. Wood product sales declined 3.5 per cent following a 2.4 per cent increase in September, while paper manufacturing shipments fell 13 per cent. These sectors contributed about half of the net decline. Food manufacturing also pulled back 2.7 per cent. Partial offsets during the month included rebounds in non-metallic mineral products (up 9.3 per cent) and primary metals (up 8.3 per cent).

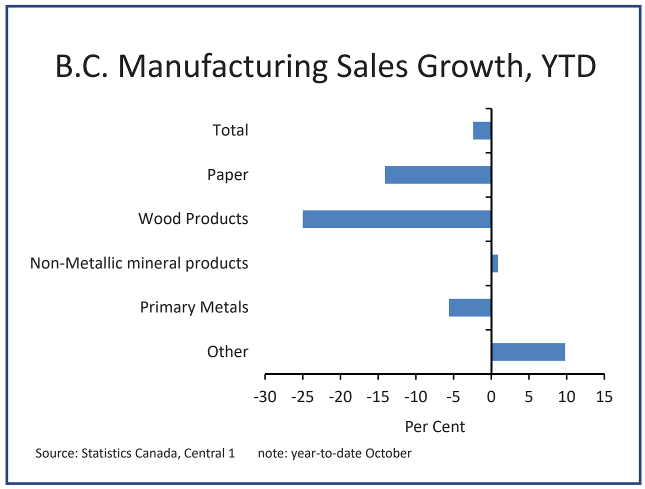
Despite recent fluctuations, momentum remained negative for B.C.'s manufacturing sector into the fourth quarter. A weak forestry market has pummeled production leading to mill closures and layoffs across the province. Global macro-economic uncertainty led to soft commodity prices and demand. Through 10 months, manufacturing sales fell 2.4 per cent, compared to a near seven per cent increase over the same period in 2018. Key drivers have included a 25 per cent drop in wood products and 14 per cent decline in paper manufacturing, while primary metals declined 5.6 per cent. In contrast, machinery and computer and electronics were both up 3.8 per cent, and food was up 6.2 per cent. Modest growth in the domestic economy, and a low Canadian dollar are still providing uplift to non-resource related manufacturing products.

Steady CPI inflation masks price hikes for necessities

Price inflation in B.C. held steady in November with a year-over-year growth in the consumer price index (CPI) of 2.2 per cent, which was nearly identical with October. B.C. was the only province not to see an acceleration in inflation from the prior month, as national CPI inflation jumped from 1.9 per cent to 2.2 per cent. A main driver of the discrepancy was gasoline prices which accelerated in all provinces except for B.C., where drivers benefitted from a surplus of fuel in the region. Headline inflation in B.C. was fourth highest among provinces.

Beneath the surface, there are signs that consumers are feeling the pinch from the rising costs of necessities. Food prices are up sharply from a year ago by 4.8 per cent, driven largely by in-store purchases. Meat prices are up 7.4 per cent, while vegetable costs are up 10 per cent. The rent index rose 4.3 per cent, but caution is warranted given a change in estimation methodology earlier this year. An apples-to-apples comparison won't be seen until 2020. Nevertheless, signs point to a tight rental market. Public transportation costs rose 3.4 per cent, while clothing and footwear costs have accelerated to four per cent.

On the flip-side, less pressure has been seen on owned-accommodation pricing, reflecting lower interest rates and prices. Gasoline prices are down 1.4 per cent, which has dampened headline growth.

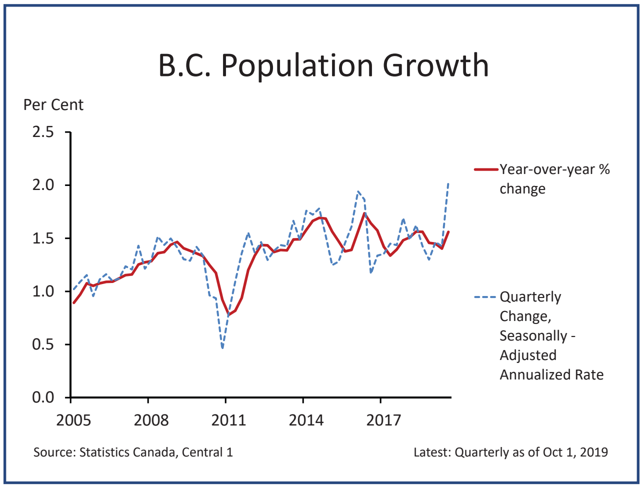


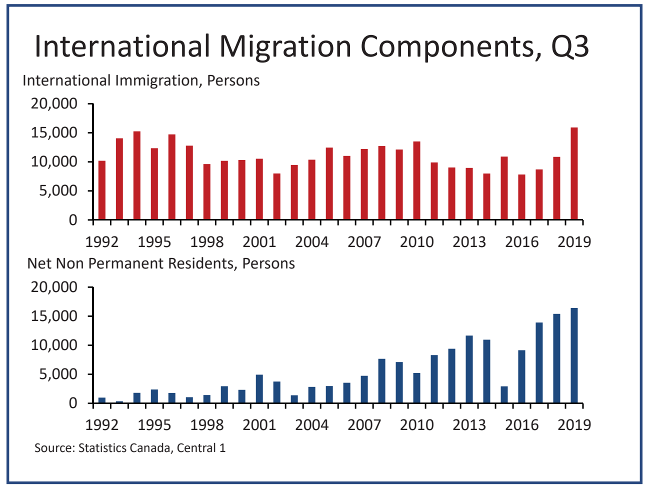
Unemployment increases in smaller markets

The number of employment insurance (EI) beneficiaries ticked higher in October but levels remained near cycle lows. The total number of beneficiaries rose 1.3 per cent from September and 6.3 per cent on a year-over-year basis to 41,090 persons. Low EI counts reflect what is still a tight labour market with an unemployment rate below five per cent, although employment has waned near the end of 2019.

Nevertheless, there is some sign of labour market deterioration. The number of EI claims in B.C. has been on a rising trend after dipping to a cycle low in mid-2018. Lack of upward momentum in EI counts partly reflects a natural downtrend as benefits expire over time. A rise in consumer insolvencies may also be reflecting some of this stress.

October's increase in EI counts has been concentrated in regions outside the census metropolitan areas and larger urban areas. In smaller urban markets and rural B.C., EI counts rose 3.2 per cent from September and 12 per cent year-over-year which likely reflects challenges in the forestry and resource economies.





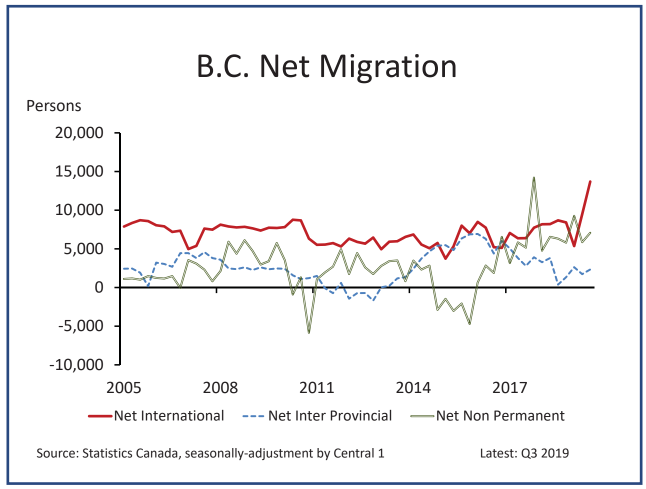
Population booms in Q3

Canada is experiencing a wave of new residents to the country, propelling population levels higher and providing strong support for the consumer economy. National population growth from July 1 to October 1 reached a robust 0.6 per cent.

B.C. led this charge in the third quarter with its population increasing by 0.7 per cent or 34,240 persons from July 1 to October 1. In fact, this was the strongest same-quarter growth for B.C. since the mid-1990s. Driving the latest gain was a surge in international migration, both in traditional immigrant newcomers and surging non-permanent residents which hit same-quarter record highs. The former surpassed 15,000 persons which was 50 per cent above the prior year's performance, while the latter continued to climb from already elevated levels. Net interprovincial migration also picked up in the third quarter, owing more so to fewer outflows of residents to other provinces.

Net international migration surpassed previous highs observed in the 1990s. High intake targets by the federal government, and strong demand by immigrants for countries that have stable governments, freedom, and generally accepting of newcomers have buoyed inflows. A tight labour market, demand for post-secondary education, and burgeoning technology sector is likely driving increased non-permanent resident inflows via increased student and work visas.

With the latest gain, year-over-year population growth in the latest quarter rose to nearly 1.6 per cent from 1.4 per cent the prior quarter, translating into a gain of 78,425 persons. More than 80 per cent was due to international inflows.



Strong population growth will remain a key driver for the economy with newcomers contributing to helping to alleviate shortages in the labour market, lifting consumption, housing demand and forming businesses. That said, rapid inflows, which predominantly flow to urban areas will add further upward pressure on home values and rents.

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