B.C. Economic Briefing

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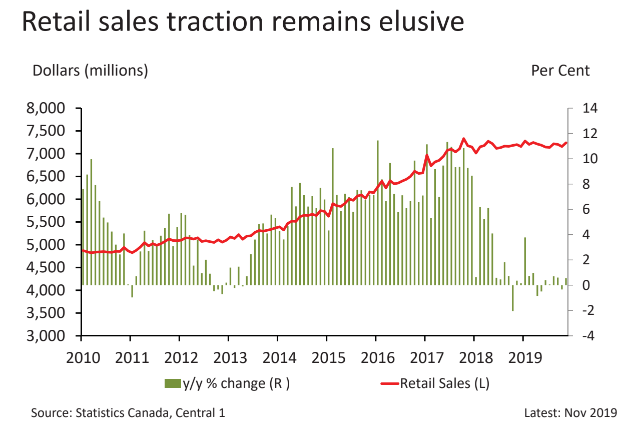
Highlights:

- Retail sales rise 1.1 per cent on Metro Vancouver gain
- Manufacturing sales unchanged from October but down 4.9 per cent year-over-year
- CPI inflation decelerates to 2.1 per cent
- International tourist visits to reach record high despite declining momentum



Retail spending picks up in November, flat for 2019

Consumers were not in a spending mood heading into the holiday season. While rebounding in November, B.C. retail sales remained in the sluggish range-bound trend observed for most of the past year. Led by Metro Vancouver, dollar-volume sales in B.C. rose 1.1 per cent from October to a seasonally- adjusted $7.24 billion, offsetting a prior month decline. Year-over-year growth was a mild 0.6 per cent, following a drop of 0.3 per cent in October. The drivers of November's rebound included higher sales at motor vehicles, home furnishings, and home improvement stores. The latter likely reflects rising momentum in the housing market.

Despite November's uptick, retail spending continued to disappoint. Year-to-date sales growth was a scant 0.6 per cent and is set for the weakest annual performance since 2009 when sales declined four per cent. Spending in Metro Vancouver declined 0.7 per cent compared to an increase of 1.7 per cent in the rest of B.C. Weak sales were observed across most store segments, with the only bright spots being health-related stores (up 5.3 per cent) and general merchandisers (up 5.0 per cent). Adjusting for price inflation, real sales volume was at best flat at brick and mortar stores.

The lack of retail traction is at odds with a tight labour market, wage gains, and strong population expansion. A number of factors are constraining sales. Households have likely tightened up their spending given high debt loads, rising shelter costs (particularly for renters), and increased food prices. Meanwhile, sales continue to shift online both from divisions of traditional retailers and from exclusive e-commerce stores. This segment is fast growing, but is less than five per cent of national sales. Replacement demand for vehicles has also declined following a number of years of strong sales, and could be further limited given rideshare approval in Vancouver. Retail sales are forecast to rebound to a four per cent growth rate in 2020 owing to population expansion and improved housing demand.

Weak manufacturing trend continued into November

Canadian manufacturing activity tumbled in November adding to economic growth woes in the fourth quarter. Dollar-volume factory sales fell 0.6 per cent from October, marking a third consecutive decrease, with real price-adjusted volume down 0.8 per cent.

Sales fell across most provinces, led by declines in Atlantic Canada and the Prairies. Ontario managed a gain of 1.4 per cent as shipments of transportation equipment, fabricated metals and other goods picked up following the end of the U.S. GM strike which impacted the Canadian supply chain.

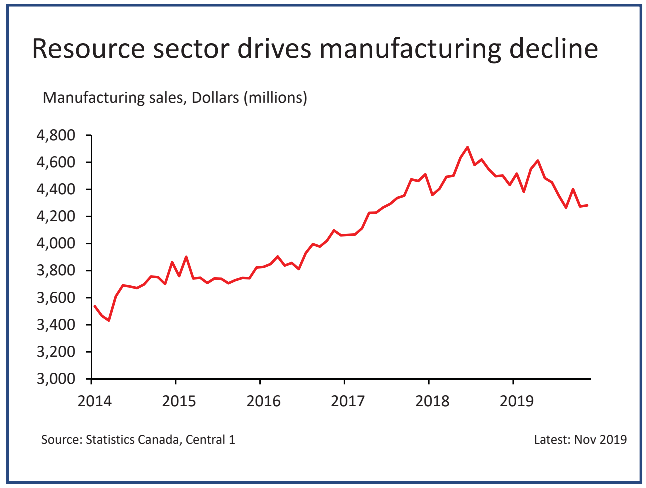
B.C. was a small bright spot, with sales essentially unchanged from October at $4.28 billion. A slip in Metro Vancouver sales was offset by other regions. This is hardly cause for celebration given B.C. sales fell nearly three per cent the previous month and were down 4.9 per cent year-over-year. While November's headline growth was negligible, there were significant increases in beverage and tobacco (up 10.4 per cent), paper (up 6.0 per cent), and non-metallic minerals (up 15.4 per cent). These offset declines of 20 per cent in primary metals, and wood products (down 2.3 per cent).

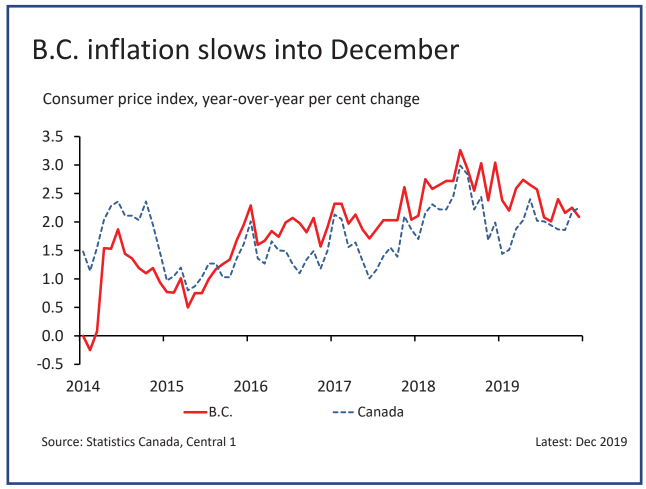
Factory sales have generally declined since mid-2018 and will likely show a decline of more than two per cent in 2019 once full-year data is available. This follows a 5.6 per cent gain in 2018 and the first full-year decline since 2009. Through the first 11 months, sales declined 2.7 per cent. There has been a significant divergence between Metro Vancouver, where sales were up five per cent, compared to a near 10 per cent decline elsewhere in the province. Metro Vancouver makes up about half of total manufacturing sales. The divergence reflects differing product segments. Namely, a commodities downturn has hammered B.C.'s smaller urban and rural areas, with paper sales down 15 per cent and wood products production falling 25 per cent due to the downturn in the forestry sector. Primary metals also declined, while fabricated metal products, machinery production and food manufacturing provided significant offsets.

Minor relief for households as inflation eases in December

B.C. households experienced minor relief for their wallets in December as prices for consumer goods and services edged lower for the fourth time in five months. The consumer price index (CPI) edged down by 0.1 per cent from November, compared to flat national level prices. Headline year-over-year inflation continued to decelerate, slipping to 2.1 per cent from 2.3 per cent in November, and has slowed from a pace of 2.5 per cent observed of the first half of 2019. Inflation sits third lowest among provinces.

The decelerating pace of inflation largely owed to food prices. While still growing at a quick pace of 3.8 per





cent year-over-year, growth slipped from a 4.8 per cent pace in November, as store-bought food prices declined. Gas prices no longer contributed to declining inflation, but inflation was negligible with a 0.6 per cent gain. Similarly owned-accommodation shelter prices were essentially unchanged from a year ago as lower mortgage rates limited consumer costs. In contrast, stronger price growth was observed in public transit costs (up 4.4 per cent), clothing and footwear (up 4.2 per cent), and recreation goods (three per cent). Growth in rental accommodation prices of 4.5 per cent comes with an asterisk as a change in measurement methodology at the beginning of 2019 means price levels are not directly comparable. That said, CMHC's rental market survey released last week points to similar growth in rents.

Average annual growth in B.C.'s CPI came in at 2.3 per cent in 2019, down from 2.7 per cent in 2018.

International tourism to hit a record annual high despite moderation in trend

International tourist visits to B.C. moved lower again in November adding to a downtrend in visits following a summer peak. Total international tourist visits declined 1.1 per cent on a year-over-year basis in November. Adjusting for normal seasonal influences, inflows declined 1.4 per cent from October 502,564 persons (seasonally- adjusted), following a 3.1 per cent drop the prior month. Levels are the lowest since February. Declines in November owed to both fewer U.S. visitors (down 1.3 per cent) and overseas visitors (down 1.7 per cent).

The recent downturn, both among U.S. and overseas visitors suggest a peaking in the tourism cycle. While tourism will remain elevated – supported by a low Canadian dollar, some aversion to the U.S. given political issues, the potential of a boost due to gawkers hoping for a glimpse of the post-'Megxit' Duke and Duchess – there is little upside. Canada- China relations remain sour and will continue to limit visitors, while risks of the coronavirus may curtail travel demand going forward.

Nevertheless, total tourism inflows were on track for a record high with year-to-date tourists up 2.6 per cent through November. This was led by a 2.8 per cent increase in U.S. visits, with overseas visitors up 2.2 per cent. Based on traveler data, which includes same-day travel, growth in overseas visits were driven by large increases in inflows from Mexico (up 13 per cent), Hong Kong (up 11 per cent), India (up 22 per cent), and Japan (up 10 per cent). In contrast there was substantial slump in visitors from China which fell 9.4 per cent.

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