

## Highlights:

- Retail spending edges up 0.1 per cent in December, outlook for 2020 mixed
- Forestry crisis drives first manufacturing sales decline since 2009
- CPI inflation climbs to 2.3 per cent in January, driven by increased energy costs

## Retail spending improves in fourth quarter but sales weak in 2019

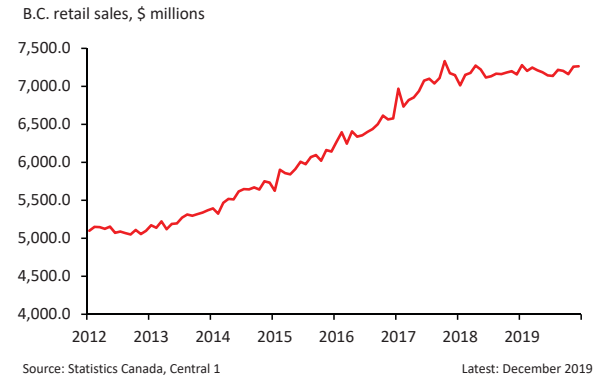
B.C. retailers saw modest positive momentum heading into 2020 with retail spending at brick and mortar stores edging up 0.1 per cent in December to a seasonally-adjusted \$7.26 billion. This followed a 1.4 per cent increase in November.

Year-over-year, sales were up a mild 1.5 per cent in December, up from 0.8 per cent in November.

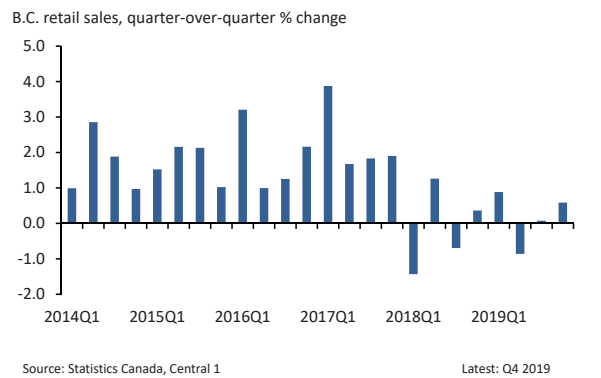
While headline growth in December was nothing to write home about, there were a few highlights. The main drag on growth were motor vehicle sales (down 4.3 per cent year-over-year) and gasoline station sales (down 4.5 per cent). That said, the latter generally reflects changes in gas prices and declines mean savings for households. Meanwhile, electronics and appliance sales rose on a year-over-year basis to 7.8 per cent following prior month declines, while clothing sales (up 0.6 per cent) and sporting goods/recreation products (up 5.8 per cent) also posted year-over-year improvements. Excluding vehicle sales and gasoline, sales were up 4.7 per cent year-over-year.

The modest fourth quarter rebound of 0.6 per cent wasn't enough to stave off a poor year for retail spending. Full-year sales rose 0.6 per cent to \$86.5 billion, compared to a national increase of 1.6 per cent. B.C. sales rose two per cent in 2018. Declines in vehicle sales and building materials likely reflect a combination of household belt tightening amidst high debt loads, lower home sales for much of the year, and lower vehicle replacement demand. Online sales are also

## Retail spending flat in 2019



## Mild upturn in growth in Q4 retail sales



taking up an increasing share of household spending. While still accounting for less than five per cent of national sales, e-commerce sales were up more than 30 per cent on a year-over-year basis. Headline retail sales growth in the Vancouver metro area declined 0.6 per cent owing in large part to vehicle sales.

A firm labour market and rising population is expected to support retail spending in 2020 but several risks are apparent. The spread of the Coronavirus is impacting global travel and tourism, which will likely curtail spending in the Vancouver region. Domestic purchasing may also be impacted where households are more cautious about crowded spaces. Online sales will likely carve out a higher share of sales, impacting brick and mortar shops.

## Forestry crisis drives first manufacturing sales declines since 2009

Similar to the export picture, B.C. manufacturing sales posted a solid gain to end to an otherwise forgettable year. Dollar-volume shipments rose 3.3 per cent from December to a seasonally-adjusted \$4.41 billion to reverse two months of decline and reach the highest level since September. Increased sales were led by primary metals (up 20.5 per cent), wood products (up 4.3 per cent) and paper (up 6.4 per cent). These three sectors comprised about 70 per cent of the net monthly gain.

Despite the rebound, headline sales remained sluggish. Year-over-year sales declined 0.6 per cent compared to December 2018, and full-year manufacturing declined 2.4 per cent or \$1.3 billion to \$53.0 billion to mark the first annual decline since 2009. That said, declines were almost entirely related to the forestry sector. Wood product shipments, particularly sawmill output, declined by 25 per cent or \$3.1 billion, while paper sales fell 15 per cent or \$875.2 million. Declines reflect a combination of weak market condition and prices, duties on softwood lumber and loss of capacity as mills shuttered. Primary metals sales fell 6.7 per cent or \$247.5 million.

Not all was lost however, as growth in other sectors provided a partial offset to the commodity drop.

Specifically, manufactured food products rose 6.2 per cent or \$500 million with large gains in fruit, dairy and meat. Beverage sales rose sharply by 20 per cent or \$278 million.

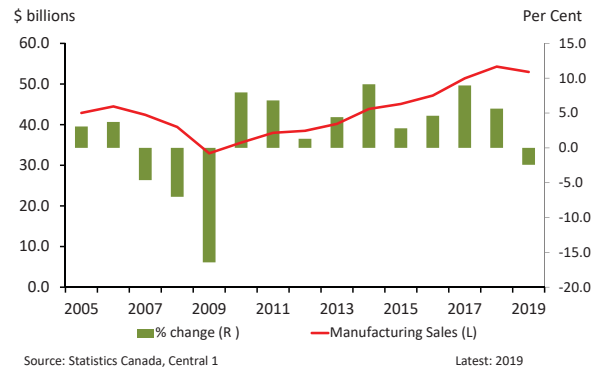
Regionally, Metro Vancouver manufacturing sales rose 5.3 per cent, which was more than offset by a 9.5 per cent decline elsewhere in the province. This reflects greater exposure to the resource sector in the interior and island regions.

## Price of necessities on the rise

Alongside most other provinces, B.C. consumer price inflation (CPI) accelerated in January. Year-over-year growth in the consumer price index increased to 2.3 per cent from 2.1 per cent in December. The main driver was a sharp increase in energy costs. Specifically, gasoline prices rose 8.1 per cent year-over-year, compared to a 0.6 per cent increase the prior month.

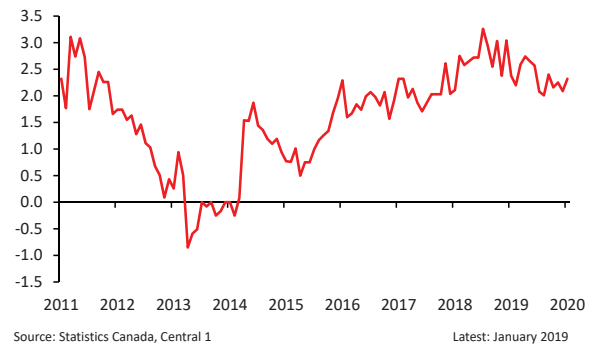
Meanwhile, households were further pinched by rising food prices which climbed 4.3 per cent from

## First decline in manufacturing sales since 2009



## Inflation rebounds in January

Year-over-year change in B.C. Consumer Price Index



a year prior, owing in large part to rising meat and vegetable prices. Renters are seeing significant hikes for accommodations, with rent up 3.9 per cent. While down from a 4.5 per cent pace in December, this is not comparable given a change in how rents were estimated prior to 2019. Clothing prices have also ramped up with growth of 5.5 per cent, while child care costs are up 3.5 per cent albeit identical to December. Public transit costs are 6.2 per cent. It would seem the pace of growth for many necessities is tracking a faster than average pace, likely impacting younger and lower-income households more significantly.

In contrast, headline price growth was dampened by a scant increase in homeowner costs of 0.3 per cent, due in part to lower replacement and mortgage interest costs. Costs have also declined for telephone services (-10.8 per cent) and internet (-1.0%).

Going forward, inflationary pressures will be dictated by a combination of factors. Coronavirus impacts have slowed the global economy and weighed on energy prices which could temper related consumer prices.

That said, B.C. consumers are also operating within a tight labour market and rising population environment which will continue to lift prices. The 7.0 per cent PST will be extended to sugary carbonated drinks as of July 2020 which was announced in Budget 2020's so-called soda-tax. Finally, a significant risk for households at the moment is rising strata insurance costs. Strata insurance costs are surging due to a combination of factors including reassessment of risk following major climate disasters, rising condo replacement valuations, and fewer insurers in the market. This will lift inflation going forward, particularly in Metro Vancouver.

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