

Highlights:

- Economic impact of Covid-19 will be evident in March data
- Retail spending unchanged from December but weak retail spending expected through May/June until the pandemic eases
- Home sales up slightly in February
- Manufacturing declines in January as global growth and commodity prices weigh
- CPI inflation climbs in February

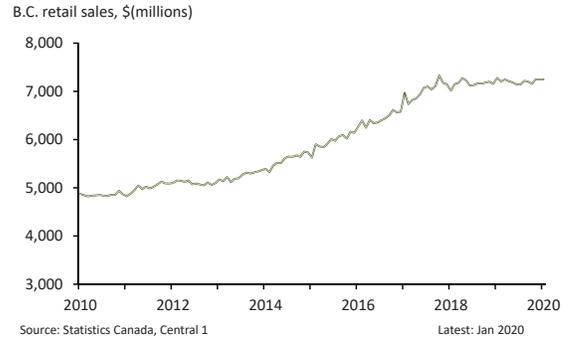
Retail store sales stall in January, declines ahead

Retail spending in B.C. stalled for a second straight month following November pick up. Total dollar-volume sales at brick and mortar stores reached \$7.247 billion (seasonally- adjusted), which was unchanged from December. Year-over-year sales declined 0.4 per cent. B.C. sales underperformed the national picture which rose 0.4 per cent from December and 3.4 per cent from a year ago.

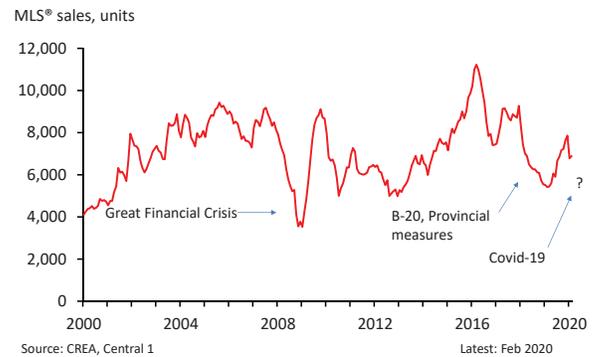
Year-over-year retail sales were especially weak in the durable and semi-durable goods segments, with vehicle and related product sales down 6.5 per cent, furniture and furnishings down 10 per cent, and electronics and appliances down 17 per cent. Severe weather factors may have played a role. Gasoline sales rose 12 per cent.

The data will look much different in coming months. The impact of Covid-19 on the business environment will largely be unseen until March data rolls around. In order to stem the spread, a wide range of retailers have closed physical retail locations and are offering only online delivery, while consumers have increasingly hunkered down at homes amidst calls for social distancing. Lower sales will prevail and gas consumption will also decline. Online shopping has undoubtedly risen but won't show up in headline retail data. Some segments have likely seen higher sales including grocers and personal health stores as households have stocked up. Weak retail spending is expected to span until May/June until the pandemic eases.

A soft start for 2020 spending, COVID-19 effect to come



Moderately firm home sales, but ready for a dip?



Mild improvement in February MLS® Sales

B.C. MLS® home sales showed mild improvement in February following January's pullback but the outlook dims amidst intensification of the Covid-19 pandemic which is affecting nearly all facets of the economy.

Total MLS® sales reached a seasonally- adjusted 6,889 units in February. This marked an increase of 1.6 per cent from January following a near 14 per cent decline the previous month. This is largely in line with the ten-year average of sales. Monthly sales performance was mixed with gains in most areas including Lower Mainland- Southwest (up 3.6 per cent), Vancouver Island (up 2.8 per cent), and northern B.C. (up 2.8 per cent). Fewer sales in the Okanagan were the main offset. Broadly, housing demand continued to be supported by solid population growth, tight labour markets and low interest rates.

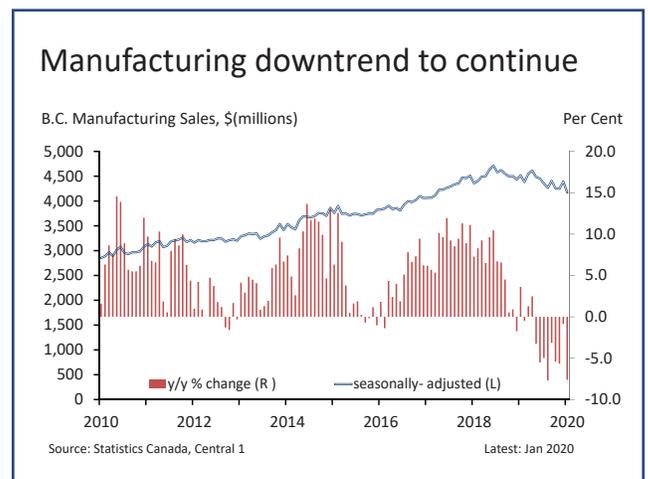
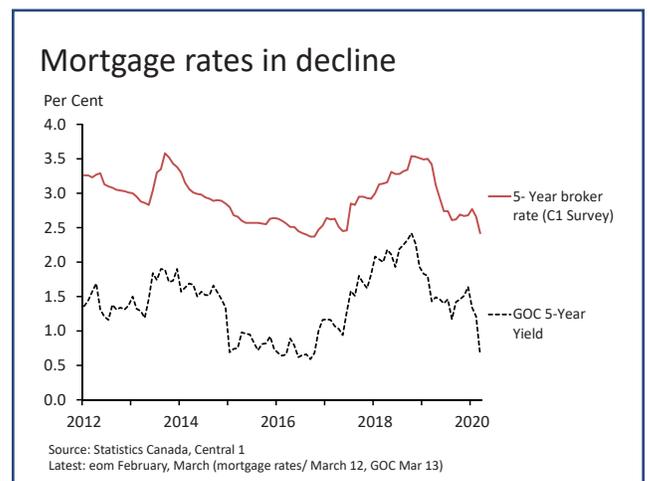
Sales are sure to turn lower through the first half of the year as the spread of Covid-19 curtails household behaviour. Prospective buyers are turning their attention away from purchasing decisions during the current period, particularly given fears of spread, advisories of “social distancing”, and risks of a downturn in the economy and labour market. Financial markets have been hammered by Covid-19 with the TSX down more than 30 per cent from a February peak which has thrown a wrench in down payment plans for some buyers.

Central bank rate cuts and declining bond yields have cut borrowing costs, but other factors will likely dominate purchasing behaviour in the near term. Pass through of lower mortgages is also limited by the decision by the Office of the Superintendent of Financial Institutions (OSFI) to suspend changes to the mortgage stress test rate for insured mortgages that was to come in effect on April 6. This new benchmark rate would have been lower than the current bank posted rate used.

Market conditions are entering the current period of uncertainty with a firm sales-to-active listings ratio hovering in a range consistent with a balanced-to-sellers’ market, specifically in southwest B.C. The average price was essentially unchanged from January at \$736,140 but up 12 per cent from a year ago. Benchmark price indices generally rose with Lower Mainland and Okanagan prices up 0.4 per cent from January and Victoria posting a 0.7 per cent increase. We expect price volatility in coming months amidst a sales decline. That said, listings flow will likely pull back as well for similar reasons. Market conditions will improve as the pandemic fades, and housing activity will rebound sharply amidst rock bottom interest rates, improvements in equity markets, and response to pent up demand.

Factories post sharp contraction in January activity

Manufacturing sales in B.C. contracted sharply in January, with much of the Covid-19 hit still to work its way into future data. Factory sales (seasonally-adjusted) declined 5.1 per cent from December and 7.6 per cent year-over-year to \$4.17 billion to retrace a prior month gain. Declines were spread across most sectors with more than half showing declines. Monthly paper production (down 11.6 per cent), wood products (down 6.3 per cent), non-metallic minerals (down 6.8 per cent), and transportation equipment (down 11.5 per cent) made up more than half of the net decline. It is likely that coal and petroleum production also declined



given a national pullback. Of the few sectors showing gains, fabricated metals (up 8.2 per cent) was a the only notable increase. Lower manufacturing reflected both shipments and drops in commodity prices, which declined on signs of weaker global economic growth.

Year-over-year declines were concentrated outside Metro Vancouver, reflecting regional economic structures. Manufacturing shipments in Metro Vancouver rose 2.9 per cent but was off the 12.8 per cent increase in December.

Manufacturing activity will continue to trend lower. The combination of rail blockades in February and intensification of Covid-19 on global economic growth and mobility will contribute to lower export demand and commodity prices. From March onwards, manufacturing will remain weak as retail demand pulls back, and suspension of some manufacturing activity in the U.S., Canada and other regions flow through to demand for domestically produced goods.

Higher gas prices lift February inflation

Consumer price inflation (CPI) in B.C. edged higher in February, with price levels up 2.4 per cent year-

over-year, compared to 2.3 per cent in January. This marked a departure from national inflation, which decelerated from 2.4 per cent to 2.2 per cent. This disconnect largely owed to growth in gasoline prices in B.C., which often sees differing gas price movements than other provinces. Gas prices rose 1.7 per cent from January, with a year-over-year gain of 8.5 per cent.

Despite the increase in gas prices, goods price inflation broadly decelerated, with 12-month inflation slipping from 3.5 per cent to 2.8 per cent, while services prices accelerated from 1.6 per cent to 2.0 per cent.

Goods seeing above headline inflation growth included food (3.7 per cent) - albeit with deceleration from January - rent (5.3 per cent), childcare and house-keeping (5.3 per cent), public transit (7.7 per cent), and travel services (5.9 per cent). On the other side, lower inflation was seen in homeowner replacement costs (-3.5 per cent), communications (-6.9 per cent), and household furnishings and equipment (-1.1 per cent).

Covid-19 effects on the latest data was minimal. The figures excluded flight costs as a result of mass cancellations which meant individuals were ultimately unable to take these flights. Going forward inflation will be lower. Oil prices have collapsed. Gas prices have fallen. Interest rates have been cut sharply. At the same time, the wide closure or limited service in restaurants and retail segments to contain the spread of the virus will lead to less reliable data from March onwards. Supply chain issues and hoarding of products; however, has likely lifted prices for various products.

Bryan Yu

Deputy Chief Economist

byu@central1.com / P 604.742.5346

Mobile: 604.649.7209

