

Highlights:

- COVID-19 effects slows home sales in second half of March
- Exports slump 17 per cent in February, worst is yet to come
- Restaurant sales slipped 2.1 per cent in January, COVID-19 has since collapsed the sector

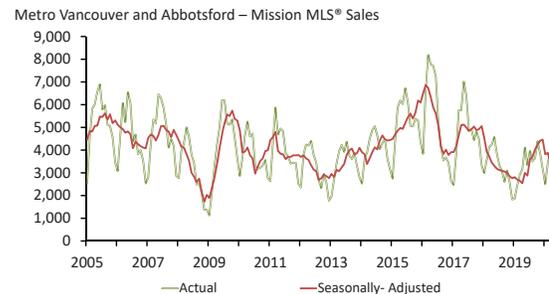
Home sales slip in second half of March, sharp declines ahead

A modest pace of Lower Mainland housing market activity in March will give way to a plunge in sales activity that will likely extend into the third quarter as the full force of the COVID-19 disruption to society and the economy freezes the market. MLS® sales in the combined Metro Vancouver and Abbotsford-Mission metro areas reached 3,927 units. While up 35 per cent, this was primarily due to low same-month sales in 2019, with seasonally- adjusted sales down about 10 per cent by our calculation from February. For various reasons, sales had already slipped in early 2020 from late 2019.

Like most indicators, this is all in the rear-view mirror at this point. According to the real estate board, daily sales fell sharply in the second half of March by 30 per cent as COVID-19 fears intensified, government measures to stem the spread of the virus including distancing measures ramped up, and economic activity plummeted. Many businesses have since shuttered and with some at risk of permanent closure, layoffs have surged (albeit hopefully a short disruption to the economy). Given the time lag involved in purchase decision and firm sales in MLS®, demand likely fell more than reflected in sales.

With prospective buyers physically distancing and hunkered down at home, concerns about the economy and limited downward pressure on mortgage rates due to stress tests and increased credit risks, home sales are expected to fall sharply in coming months. A decline in the short-term monthly sales trend of 40 per cent would not surprise.

March home sales modest, but sales fall sharply during second half of month



Sharply lower sales will lead to price declines but there is high uncertainty. Both buyers and sellers will step away from the market temporarily during the COVID-19 pandemic and distancing period, limiting inventory levels. Price discovery in this market will be difficult and will not provide much indication for post- epidemic conditions. Heading into COVID-19, demand was moderate and market conditions firmed with the average price up six per cent from February to \$975,600, and the benchmark price up 1.4 per cent.

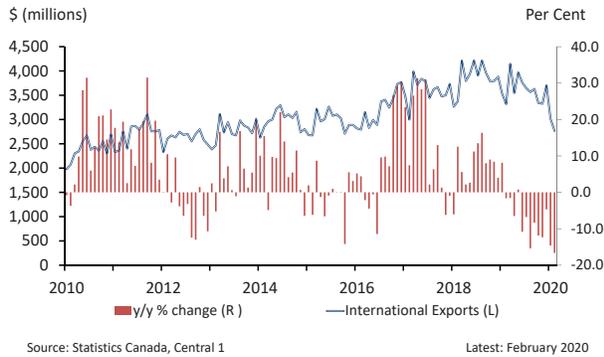
We anticipate a recovery in the housing market as the pandemic fades, although duration of current measures are unknown and household/business finances will be eroded in the interim. Nevertheless, low interest rates, an expected return to a tighter labour market, and pent up demand will support the market.

Worst yet to come as B.C. export sales fall in February

Heading into the eye of the COVID-19 deep freeze on western economies, B.C. export sales tumbled in February to contrast with higher growth in Canadian sales to the month. Dollar-volume merchandise exports declined nearly 17 per cent on a year-over-year basis in February to \$2.767 billion and compared to a 14 per cent decline in January. Our calculations point to a 5.4 per cent decline in seasonally- adjusted sales pointing to re-establishment of the downtrend following some late-2019 stability.

While the headline figure was dire, the contraction was dominated by a severe year-over-year decline in energy sales (down 40 per cent), a 10 per cent

Exports decline sharply in February, Chinese demand declines



pull back in metal ores and non-metallic minerals and decline in farm/fish/intermediate food products. Lower physical shipment and declines in commodity prices contributed to the declines, including weakness in natural gas and coal. These overshadowed improvements in forestry which “firmed” from a 31 per cent year-over-year decline to an 18 per cent drop as monthly sales rebounded. Machinery sales and other industrial production picked up.

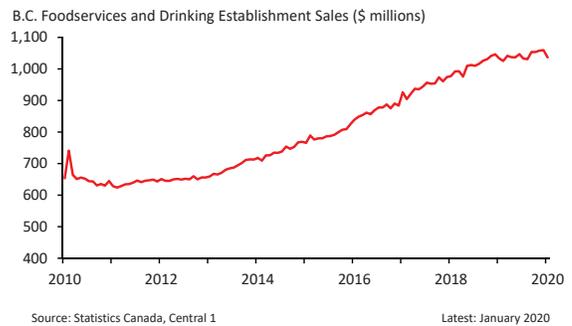
Effects of the economic downturn in China due to COVID-19, while relatively insignificant on a national scale, had a larger impact on B.C. where shipments to the country represent about 15 per cent of international merchandise exports, compared to four per cent nationally. B.C. exports to China fell 19.5 per cent from same-month 2019 from a 10 per cent drop in January. Exports to the U.S. fell a more modest six per cent. Other exports fell 30 per cent year-over-year.

February data is the last reference point before the much of the COVID-19 shock hits the data. While China is normalizing, Europe and the U.S. are in a deep freeze as authorities respond to the health crisis by essentially halting swaths of economic activity. Declines in consumer spending, business operations and investment will likely mean a period of weaker export activity ahead.

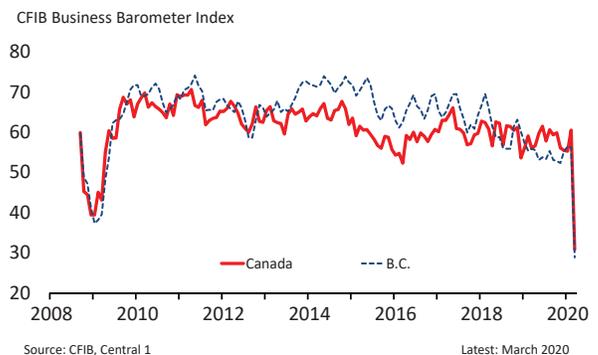
Restaurant food sales slowed in January, COVID-19 has since collapsed the sector

Restaurants and foodservices establishments are one of the heaviest hit sectors from the fallout of COVID-19, as physical distancing measures, consumer health fears and collapse in tourism has led to a near shutdown of the sector. Establishments have transitioned to take-out only where possible, with many shutting down temporarily. Many may not re-open given inability to cover fixed costs of operations over a number of months of low revenue, even with significant

Restaurant sales to collapse on COVID-19 effects after slow start to year



Small business confidence plunges



wage subsidies of up to 75 per cent offered by the federal government.

Sales at foodservices and drinking establishments data has yet to show the impact, although growth was slowing even in January. Sales in the month fell 2.1 per cent from December to a seasonally-adjusted \$1.036 billion although year-over-year growth was only 0.3 per cent. Declines going forward will show unprecedented declines of at least 60 per cent as emergency measures have shuttered sit-down service. Take-out is only small offset. Real-time indicators such as booking via online platform Opentable has declined by 100 per cent from a year ago.

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