

## Highlights:

- B.C. retail spending accelerates in February, but expected to fall sharply in March
- Gasoline prices slow consumer price inflation in March
- COVID-19 to abate consumer price pressures

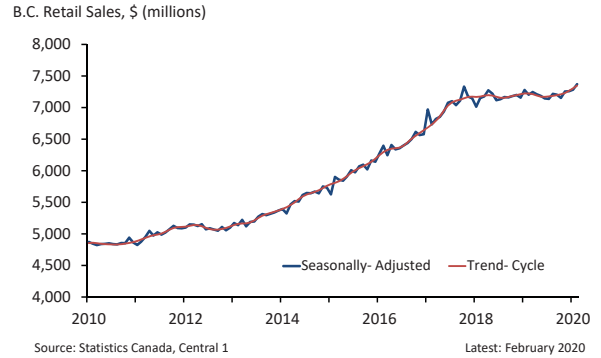
## Positive retail sales trend in February hits the COVID-19 wall

Statistics Canada released a bittersweet retail spending report this week. B.C. retail sales posted a strong monthly showing in February to mark a four-month upward trend, and potentially a signal of improving sales a provincial economy that was slowing but still chugging modestly along, generating tight labour market conditions and wage growth.

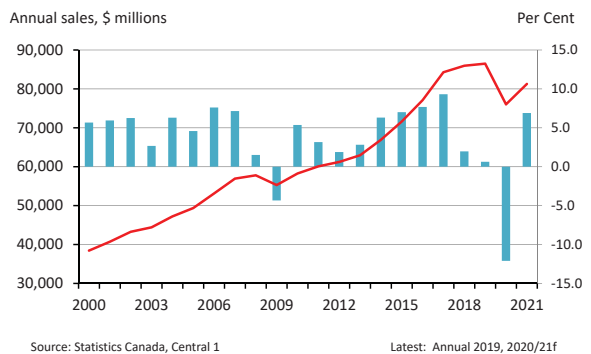
Of course, we won't know if that improvement would have persisted given the current reality. COVID-19 and government containment measures have contributed to stay-at-home recommendations for household and distancing requirements. Lower demand has pummeled brick and mortar spending for non-essential items and contributed to (hopefully) temporary store closures and a spike in layoffs. A shift to online sales has provided retailers only slight offset for local businesses, while online giants like Amazon have likely benefitted. Retailers of household essentials including grocers and health and personal product stores have likely performed well as more families stay home.

February data showed a sharp increase in retail spending of 1.2 per cent from January to \$7.37 billion (seasonally-adjusted), marking a 2.3 per cent year-over-year gain. Most sectors showed stronger sales during the month, specifically electronics and appliances, gas stations, building materials and general merchandise stores. Recent events mean sales will be sharply lower in both March and April, particularly at new vehicle dealers, gasoline stations, clothing stores and other non-essentials. Data produced by Google leveraging its location data suggests a sharp decline in mobility since containment measures have been implemented. Trips to retail and recreation locations

## Retail sales trend higher in February...



## But forecast to decline 12 per cent on COVID-19



have declined 50 per cent since a baseline of January through February.

A recovery in retail spending is expected in the second half of the year following easing of containment measures. A temporary surge is anticipated as some households feel the urge to make up for lost time, although some consumers will remain wary and stick to online purchases. Despite this upward trajectory, we forecast retail spending to decline 12 per cent this year before rising seven per cent in 2021.

## Gasoline price cuts consumer price inflation in March, COVID-19 changes spending patterns

Aligning with the national picture, B.C. consumer price inflation fell sharply in March owing largely to sharp declines in gasoline prices and travel and tourism prices. CPI inflation fell from a year-over-year increase of 2.4 per cent in February to 1.2 per cent in March.

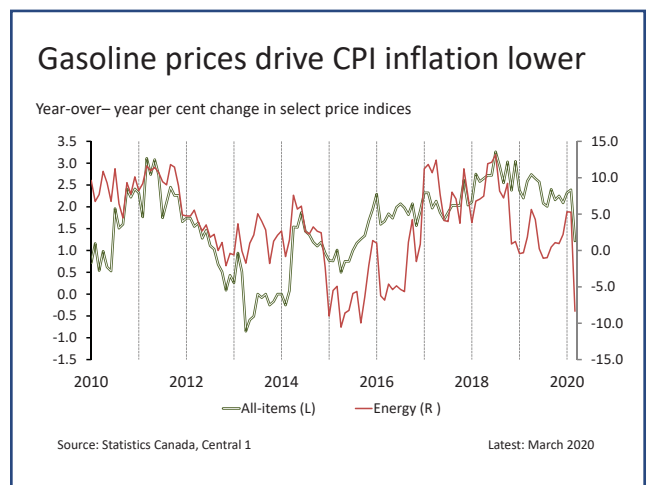
This compared to a national decline from 2.1 per cent to 0.9 per cent. This was the lowest since August 2015, which was also amidst an energy sector downturn. Headline numbers should be taken with caution given the current COVID-19 environment and changes in spending behaviour.

Lower gasoline prices were the main source of decline which fell 15 per cent. A collapse in crude prices due to COVID-19 effects and a price war between Russia and Saudi Arabia triggered the downturn. Oil prices continued to free fall in April, pushing West Texas Intermediate contracts into negative territory amidst weak demand, oversupply and insufficient storage facilities meaning prices will remain low for consumers.

Among other key goods and services the bite of the economic downturn and employment downturn was evident. Food prices were unchanged from February contributing to deceleration of year-over-year price growth to 2.9 per cent in March from 3.7 per cent the previous month. Headline prices generally decelerated as prices declined from February. Health care eased to 1.7 per cent year-over-year from 1.9 per cent, personal care products fell to two per cent from 2.7 per cent. Broadly, goods prices decelerated from 2.8 per cent to 0.5 per cent, while services declined from 2.0 per cent to 1.8 per cent.

Going forward, a period of weak inflationary pressure is expected due to low gasoline prices and constrained demand. There is risk of some supply induced inflation for meat and produce due to impacts of COVID19 on the domestic supply chain and availability of workers, but this is partially offset by fewer sales to the food services industry and import substitution.

Caution is needed when examining the COVID-19 period and headline inflation estimates. A consumer price index reflects a basket of goods and services that is tracked over time. The current period is unprecedented. Containment issues means restaurants are closed, and many families are staying home. The CPI weights restaurant meals at about 5.6 per cent of spending, gasoline at 3.1 per cent and travel near two per cent. Much of this spending is likely to fall dramatically with funds allocated elsewhere, specifically groceries and personal hygiene goods. Headline CPI is unlikely to capture these temporary shifts in spending allocation.



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