B.C. Economic Briefing

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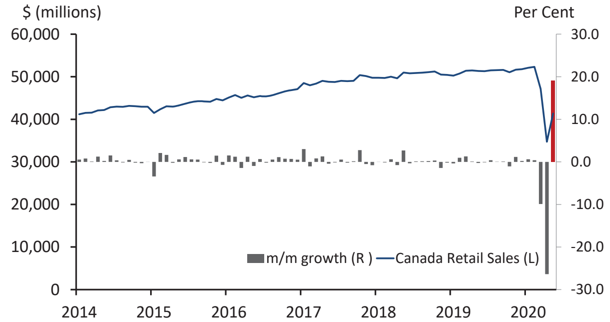
Highlights:

- B.C. retail sales decline 20.7 per cent in April
- Housing sales bounce back in May after COVID-19 induced freeze
- Manufacturing sales plunge to lowest level since 2014
- CPI inflation turns negative, but disinflation not deflation
- Population growth softens, weakness ahead

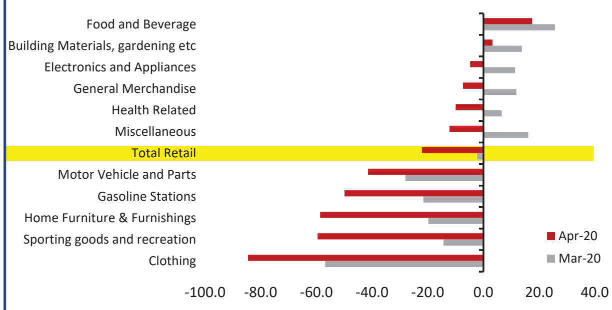
April retail sales plunge to give way to moderate May rebound



Source: Statistics Canada, Central 1 Latest: April 2020 actual, May 2020 preliminary

B.C. retail sales plunge across segments

Retail sales growth by store type, year-over- year (%)



Source: Statistics Canada, Central 1 Latest: April 2020

Retail sale plunge in April as expected, sharp May rebound expected

To little surprise, retail spending took a deep dive in April as stores across the country closed or operated at reduced capacity during the height of physical distancing measures, while consumers pulled back on spending amidst stay at home recommendations ad the economic downturn. Despite a pivot to curbside pickup where possible and establishment or expansion of online retail, national sales fell a record 26.4 per cent from March. According to Statistics Canada, roughly one-third of stores closed temporarily in April with an average duration of eight days. Closures were more pronounced in the clothing retail space, with 70 per cent closed for an average of 20 days. On the bright side, April's plunge looks to be the low point for sales with Statistics Canada's preliminary May estimate pointing to a 19.1 per cent rebound, but this would bring sales to only 80 per cent of February levels.

Like other provinces, B.C. posted a record retail sales drop in April. Sales fell 20.7 per cent from March. At $5.62 billion, sales were the lowest since June 2014. B.C.'s decline was shallower than Ontario (-32.8 per cent), Quebec (-27.8 per cent), and parts of Atlantic Canada. Relative to February, sales fell 23.6 per cent, compared to a 33.6 per cent decline in Canada over the same period which likely reflects less restrictive suppression policies in B.C.

B.C. spending declines were deepest among non-essential retailers. While sales were down 22 per cent year-over-year, some of the sharpest declines were related to motor vehicles and parts retailers (-41.6 per cent), home furnishing stores (-58.7 per cent), clothing (-84.6 per cent), stores, many of which were closed. Food and beverage store sales remained robust despite slipping from March, with a year-over-year gain of 17.5 per cent, while electronics and appliances were down 4.8 per cent from a year ago, and building materials/gardening product sales rose 3.3 per cent. Consumers have re-allocated spending to essential products, alongside spending on home offices and minor home renovations. Like the rest of the country, sales will rebound sharply in May with the economic restart but remain significantly below pre-COVID19 levels given a weak labour market, shuttered tourism sector, and many households staying close to home.

MLS® activity partially rebounds in May

Home sales ratcheted higher across B.C. in May as more buyers and sellers re-engaged with the market following April’s pandemic induced collapse. Following April’s 55.6 per cent monthly decline (and 60 per cent since February), May MLS® sales jumped 33.7 per cent to seasonally- adjusted 3674 units. This suggests the sales downturn has bottomed, and like other economic indicators, rebounding alongside increased re-openings of the broader economy. That said, even with the large percentage gains this nowhere near makes up for the recent downturn with May sales still down 45 per cent from both February and on a year-over-year basis. Same-month actual sales of 4533 were the lowest since 1990.

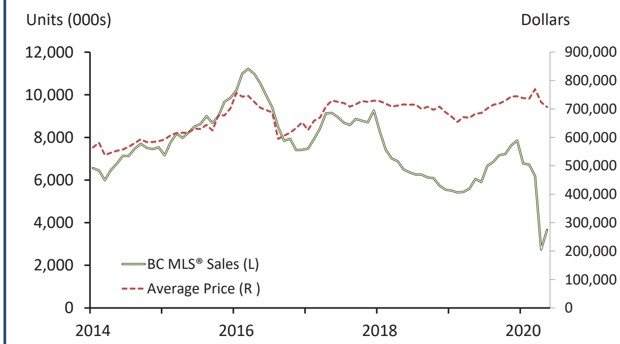
On a regional basis, markets outside the Lower Mainland- Southwest led monthly sales growth. Thompson-Okanagan area sales rose 46 per cent from April, while sales rose 54 per cent in northern B.C. Lower Mainland- Southwest sales rose 27 per cent on a seasonally – adjusted basis.

On the supply side of the market, new listings surged 60 per cent from March across the province but remained 36 per cent lower than a year ago. Like buyers, more sellers returned the market but at a still subdued pace. Given economic conditions and health concerns, many have opted to stay on the sidelines. Active listings, or a measure of inventory, continued to trend lower and were 24 per cent lower than a year ago as sellers de-listed properties or allowed listings to expire. Massive disruption in the economy and job loss has not flowed through the new listings cycle as of yet. While more households are undoubtedly distressed, government income support and the CMHC mortgage deferral program, have contributed to fewer distressed sales. There are risks these could rise in the Fall if the economy does not sufficiently rebound and these government support measures come to an end.

Easing inventory has helped to stabilize the market. The sales-to-active listings ratio at 14 per cent points to a market tilted toward a buyers advantage with mild downward price pressure in the latest month. The average price (seasonally- adjusted) fell 2.4 per cent from April to $706586 but partly reflected the composition effect of stronger sales growth outside the Lower Mainland. Average values eased however in the Okanagan but picked up in most other markets. Benchmark home values declined nearly one per cent in the Okanagan, with milder declines in the Lower Mainland (-0.3 per cent), Victoria (-0.2 per cent), and the rest of the Vancouver Island (-0.1 per cent).

Home sales are expected to remain subdued this year, and trending higher, full-year sales decline about

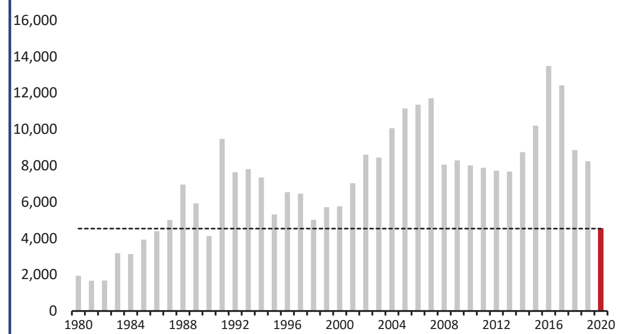
MLS® sales downturn bottomed in April, partial rebound in May



Source: CREA, Central 1 note: seasonally- adjusted data Latest: May 2020

Sales remain lowest in decades

B.C. MLS® Residential Sales, Month of May, Unadjusted Units



Source: CREA, Central 1 Latest: May 2020

20 per cent from 2019, reflecting the weak economic environment, slower population growth and tighter mortgage insurance policies. Average prices are expected to slip by 5-10 per cent.

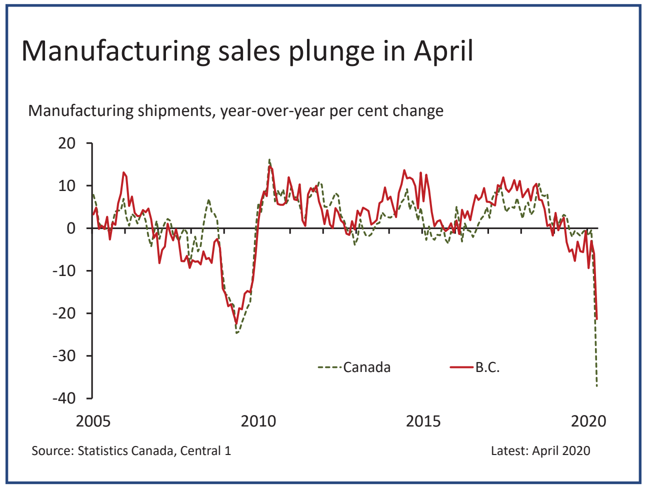
Lower demand, physical distancing cut manufacturing sales in April

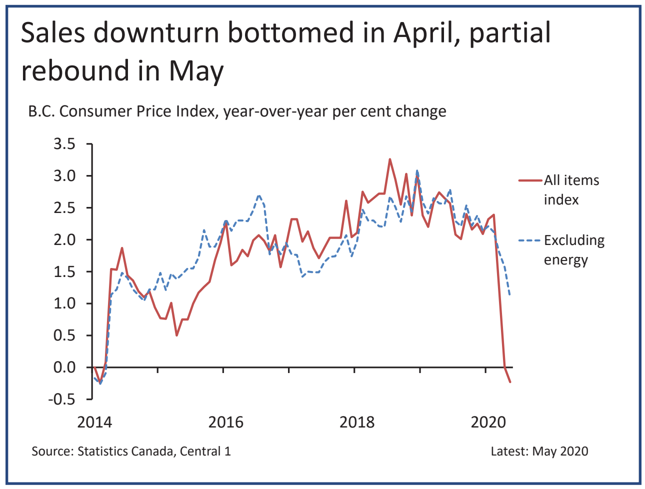
Not surprisingly, factory sales in B.C. declined sharply in April as the pandemic and global economic suppression measures impacted both consumer and investment demand, both in domestic and export markets, while some factories curtailed capacity for the purposes of physical distancing. Dollar-volume sales in the province fell 15.1 per cent from March to $3.62 billion (seasonally- adjusted). This was the sharpest single- month decline on record, with the previous low being 8.7 per cent in December 2008. Sales fell to the lowest level since April 2014, with year-over-year sales down 21 per cent.

That said, B.C.’s decline was shallow compared to the national picture. Canadian manufacturing sales fell 28.5 per cent from March and 37 per cent year-over-year. This contrast reflects differences in industry composition. National declines were led by the transportation equipment sector, which saw all vehicle assembly plants shutter during the month. Motor vehicle assembly fell 97.5 per cent, with parts manufacturers down 88 per cent. Petroleum and coal declined by nearly half.

Based on available information, few industries were spared during the month with sharp declines in both non-durable (-17.4 per cent) and durable (-13.2 per cent). In the former, food production fell 14 per cent, paper fell 6.0 per cent. Among durable goods, wood products fell 11.6 per cent, primary metals declined 9.6 per cent, fabricated metal declined 10.6 per cent and machinery fell 24 per cent.

With April's decline, year-to-date sales fell 10 per cent. Key contributors have been paper products (down 25 per cent), and wood products (down 13 per cent), which have contributed to 50 per cent of the net decline. Metal and mineral products, and machinery also fell significantly. Manufacturing trends are expected to pick up as more of the economy re-opens but will remain significantly below annual 2019 levels. Trends were already in decline prior to the pandemic, and a full rebound to pre-pandemic rebounds is unlikely given economic conditions. Annual sales are expected to decline eight per cent this year.





Pandemic leads to disinflation trend

Headline Canadian consumer price inflation, measured by a year-over-year change in the Consumer Price Index (CPI), remained negative in May at -0.4 per cent, compared to -0.2 per cent in April. However, this is not a deflationary state. The negative print primarily reflected steep year-over-year declines in gasoline prices. Excluding energy, inflation came in a one per cent. Rents also eased. That said, disinflation is occurring as the pandemic has hammered the economy. Bank of Canada preferred measures of core inflation eased 0.1 to 0.2 per cent from April, while omitting the eight most volatile items yields a year-over-year rate of 0.7 per cent, compared to 1.2 per cent the previous month.

Similarly, headline CPI inflation in B.C. also fell into negative territory at -0.2 per cent, year-over-year, compared to no change in April. Consistent with the national picture, gasoline was a key drag, with gasoline down 31 per cent (albeit a slower decline than April), rent growth fell from 4.5 per cent to 2.3 per cent, clothing declined 4.7 per cent from a year ago. In contrast, in-store food purchase prices rose 4.5 per cent as meat prices and produce rose more than seven percent. Cleaning product prices rose 4.8 per cent.

Caution is warranted interpreting declining inflation figures in the COVID-19 period. Spending allocation has undoubtedly changed in recent months as households stayed home, meaning less spending on discretionary items like fashion, restaurant meals, as well as major purchases like vehicles, vacations, and domestic travel. Prices in these sectors have declined more. At the same time, spending allocation rose for food, health products and other necessities. This has likely introduced some minor measurement bias in the data, with inflationary pressure slightly higher by about 0.3 per cent.[1] Lower income households have likely been hit worse by COVID-19, both due to a greater impact on employment and rising retail prices.

Population growth softens in Q1 with negative momentum ahead

B.C. population growth softened slightly in the first quarter, but a more pronounced slowing is expected going forward as the pandemic bites. As of April 1,

1 Cavallo, Alberto. Inflation with Covid Consumption Baskets. Harvard Business School

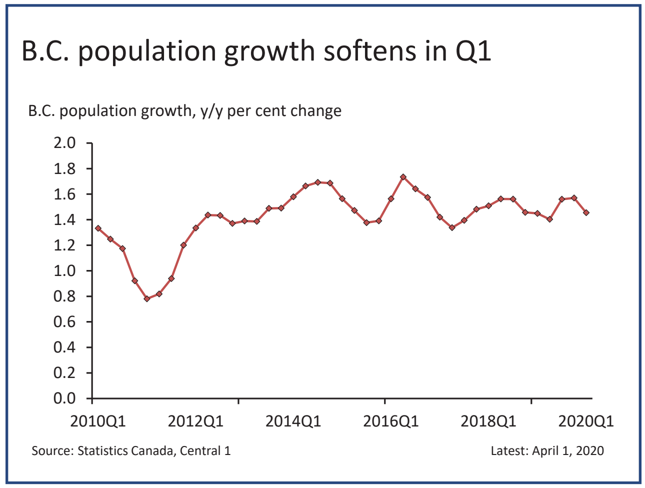
B.C.'s population reached an estimated 5.12 million persons, marking a year-over-year gain of 1.45 per cent (or 73404 persons), but down from a 1.57 per cent in December.

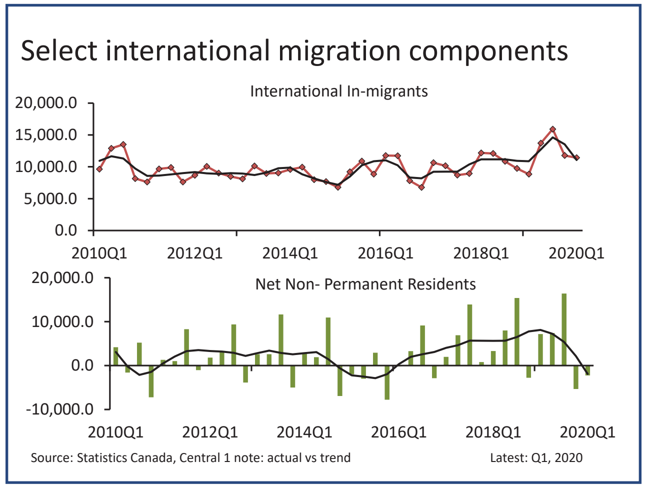
Quarter-over-quarter, the seasonally- adjusted annualized pace of growth fell to 1.1 per cent from 1.3 per cent during the fourth quarter, pointing to a deceleration in trends and slowest performance since 2011.

Pandemic effects on migration were mild in Q1 given travel restrictions did not come into effect until late- March and admitted permanent residents could continue to travel to the country. Inflow of international immigrants (permanent residency) rose 29 per cent from the first quarter of 2019 to 11424 persons, although the quarterly seasonally- adjusted trend has eased following a third quarter spike. International net migration during the quarter remained moderately strong. Net non- permanent residents contracted in the latest quarter by 2229 persons compared to 7181 person gain during same quarter 2019. Earlier cracks in the population data would show in this segment due to fewer international student inflows during the pandemic and uncertainty regarding programs in Canada.

Interprovincial migration also picked up. Inflows jumped 11 per cent from a year ago, while outflow rose 2.7 per cent. Net interprovincial migration added to a moderate upward trend, with the quarterly seasonally-adjusted flow at 4000 persons and highest since mid-2018.

Given border restrictions both in Canada and other countries, temporary restriction of entries to individuals receiving admission prior to March 18, and broad uncertainty, population growth will surely slow into 2021. Admissions flow of permanent resident fell sharply in April, owing partly to processing delays during COVID-19, but will factor into slowing of inflows. Annual population growth is measured on a July-over-July basis which will continue to result in a gain of a forecast 1.0 per cent in 2020. Population growth will pick up later this year, and through 2021 but forecast to result in a 0.8 per cent gain in 2021, and upward momentum thereafter. Canada will remain a favoured destination for immigration.





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