B.C. Economic Briefing

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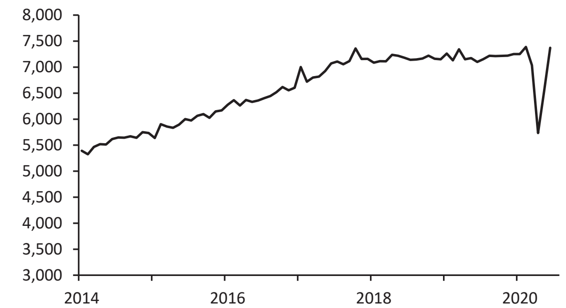
Highlights:

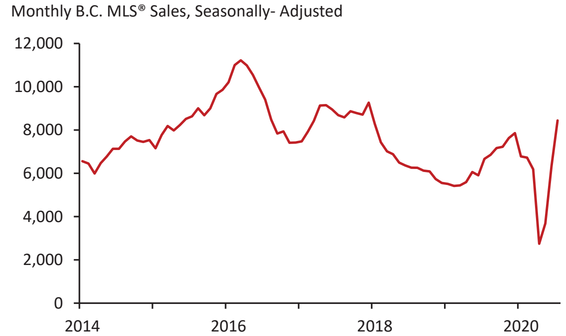
- Strengthening housing market and pent-up demand for motor vehicles and parts pushes retail sales up to pre-pandemic levels;
- Home prices rise sharply; average provincial price up five per cent from June to $787,037;
- B.C. consumer price index growth likely to decline to 0.5 per cent for 2020 before returning to 1.5 per cent in 2021.
- Actual new motor vehicle sales remained down sharply in June, marking a disconnect from retail sales performance

Economic restarts and pent up demand lifts retail spending to February level



Source: Statistics Canada, Central 1

Housing activity completes the 'V' as sales surge above pre-pandemic levels



Source: CREA, Central 1

Brick and mortar retail sales surge to pre-pandemic levels

June retail sales in B.C. rose to a level nearly identical to February, marking a return to pre-pandemic levels. Total sales came in at a seasonally-adjusted $7.37 billion, up 12.7 per cent from May. Following a 23 per cent drop in sales from February through April, coinciding with health measures that saw a large number of non-essential businesses close their physical locations and pivot to curbside pickup and greater online presence, the re-opening of businesses has driven sales higher. Key drivers of the upswing include pent up consumer demand, a strengthening housing market driving ancillary spending and lack of options to spend money on personal services, entertainment (e.g. theatres and travel), which has reallocated some spending towards goods. While joblessness remains high, federal income support measures have supported spending. On a year-over-year basis, actual sales rose 4.1 per cent, marking the first gain since February.

Improved retail sales were recorded across most segments. The strongest gains from May were in the motor vehicle and parts sectors as consumers made up for lost time, particularly amidst low interest rates. Seasonally-adjusted sales rose 20 per cent from May, with unadjusted June year-over-year sales up eight per cent. The latter compares to an 18 per cent decline in May. Store re-openings also meant a more than doubling of clothing store sales from May, with year-over-year declines narrowing from 66 per cent in May to 19 per cent. Indeed, COVID-fatigue had individuals itching to get back to normal while online shopping is not optimized for clothes fitting. The other major driver was home furnishing/furniture which rose 68 per cent from May, with year-year-growth of two per cent, compared to a 40 per cent drop in May.

In contrast, sales at food and beverage stores and building materials centres declined, and growth slowed for electronic/appliance and health-related stores. This reflects the surge in pandemic spending related to non-discretionary health items including sanitizers and masks, groceries, as well as spending on equipment to work from home and home renovations. With supply chains adapting and activity normalizing, demand has crested.

Year-to-date, retail sales declined 4.6 per cent through June, with a deeper decline of 6.8 per cent in Metro Vancouver. Comparatively, B.C.'s decline has sat mid-pack among provinces, faring much better than Ontario and Quebec with declines of near 10 per cent, but edged out by the Atlantic provinces and Manitoba. Differences reflect the severity of COVID outbreaks and subsequent provincial measures.

The rapid rebound and return to pre-pandemic levels will give way to slower growth in the second half. Statistics Canada's advance estimate for national retail sales growth in July is 0.7 per cent. Indeed, with some sales reflecting pent up sales from early pandemic days, current sales figures may have overshot the medium- term trend. Consumer spending has since rotated away from goods purchases as more services and tourism options have opened up to attract household income. Demand drivers also remain subdued with high levels of unemployment, although federal income support measures will continue, while international tourism is essentially non-existent.

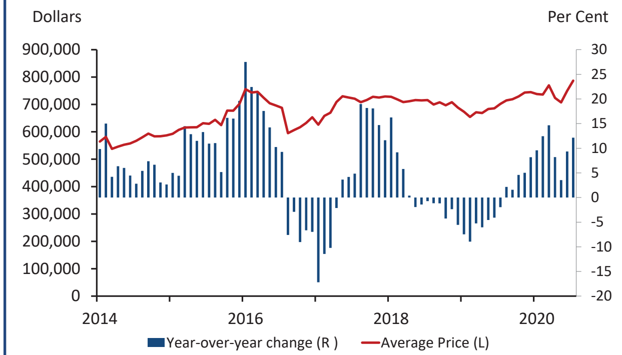
Home sales slingshot back to normal in an abnormal world

Like markets across the country, B.C. MLS® home sales continued to slingshot higher in July despite high levels of joblessness and the ongoing pandemic. In a clear 'V' shaped recovery, sales surged for a third straight month with 33.8 per cent gain from June to a seasonally- adjusted 8,441 units. The rebound has lifted sales above pre-pandemic levels in February and the strongest performance since late- 2017. On a same-month basis, unadjusted sales in July rose 27.6 per cent from 2019 which marked the highest number of sales since 2015.

Regionally, patterns were similar with sales up across the province. The Lower Mainland-Southwest posted growth of nearly 40 per cent from June and drove the increase given volume of sales, while northern B.C. markets also saw sales rise 45 per cent, albeit representing a small share of sales. Monthly growth in other regions were more modest but still robust. All regions are operating above February sales.

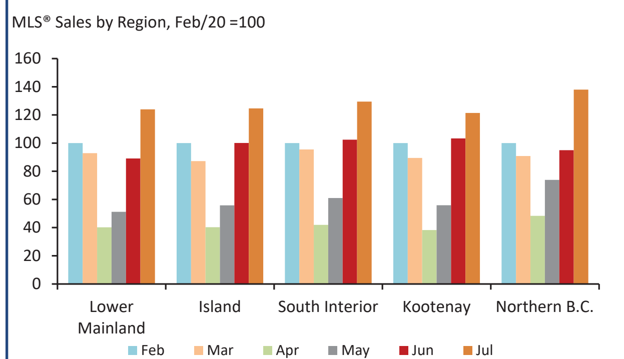
The pace of rebound has surprised on the upside and at face-value is disconnected from an economy still grappling with double-digit unemployment rates, business closures, and high levels of uncertainty. Undoubtedly, cancellation of the typical spring market upswing likely fueled a shift in sales to the summer month. That said, demand has been supported by a

MLS® average prices on the rise



Source: CREA, Central 1

Sales up sharply across the province



Source: CREA, Central 1

number of factors. While joblessness is high, lower paid services occupations have been hardest hit, while higher paid workers have been less impacted due to options to work remotely, or in sectors like goods production. As a result, renters have likely been disproportionately hard hit compared to prospective home buyers. Declining mortgage rates, suppressed by policy rate cuts and low bond yields, are a substantial incentive for buyers to jump into the market. A shift in household behaviour may also be playing out as expectations of work-from-home, and less recreational travel drive buyers to prioritize increased space and homeownership.

Home prices are rising sharply. Higher demand is running into an environment of constrained supply. While new listings are climbing, growth pales compared to the sales pace. New listings rose 7.5 per cent from June and 20 per cent year-over-year. Month-end inventory has crept higher but sits 14 per cent below a year ago. The sales to active listing ratio sits in a sellers' market territory at 28 per cent, stoking multiple offer situations and bidding up prices. The average provincial price climbed five per cent from June to

$787,037 (seasonally- adjusted) with gains observed across real estate board regions. The Fraser Valley Board, Victoria, and Okanagan- Mainline (centred by Kelowna) led the monthly increase with gains near seven per cent. Year-over-year, B.C.'s average price was up 12.5 per cent. Compositional effects are likely a factor as buyers flock to detached homes, strong gains were also observed in constant-quality housing indices, with the Island up one per cent from June, and the Okanagan and Lower Mainland up 0.7 per cent.

A dampening in demand is expected given a weak economy and less fiscal support for the economy from the federal government. Affected workers are being transitioned from the Canadian Emergency Response Benefit to a modified employment insurance program, if not rehired. While unlikely to impact buyers directly, moderately lower benefits flow contributes to softer economic activity and housing market demand. That said, with year-to-date sales down only 1.4 per cent through July, annual sales will be much stronger than we had previously anticipated and likely within a three per cent range of 2019 levels. In the absence of a surge in supply, upward price momentum will persist. Average prices are up 10 per cent on a year-to-date basis with little downward pressure at this point although slowing demand in the fall/winter months could dampen growth.

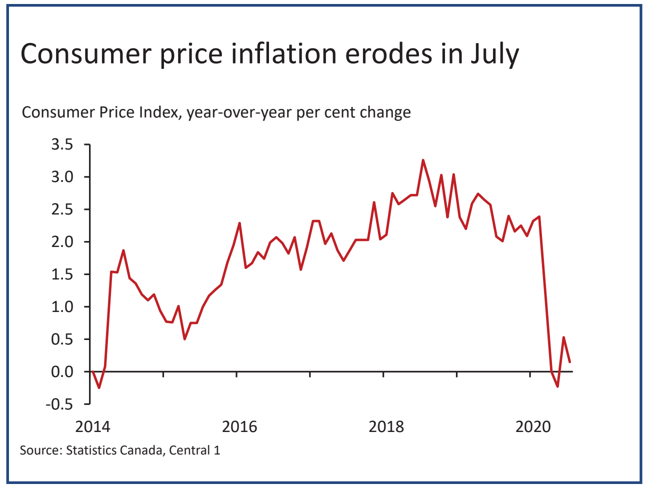
CPI inflation slows in July

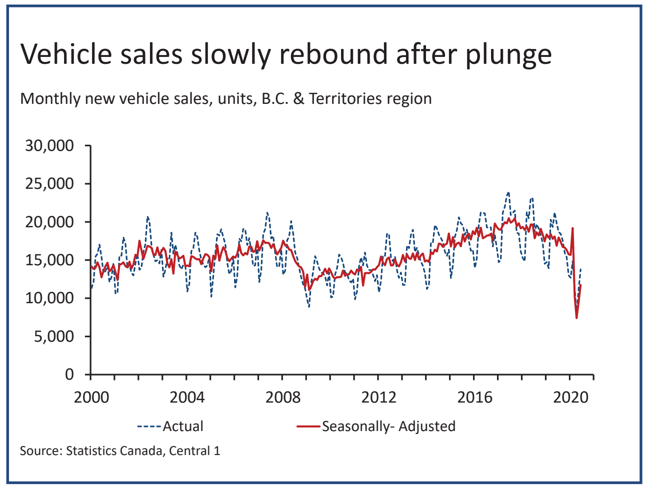
Similar to the national figures, headline inflation in B.C. pulled back in July following a firming in June. Year-over-year growth in the consumer price index (CPI) slowed to 0.2 per cent from a 0.5 per cent reading in May. Flat prices levels from May contributed to the erosion.

Inflation in both goods and services fell in July. Goods prices were unchanged in July from a year ago, driven largely by lower semi-durable goods prices. Inflation in services fell from 0.6 per cent, year-over-year in June to 0.1 per cent in July.

In the goods sector, food-prices steadied contributing an easing inflation to 2.6 per cent from 3.7 per cent in June, while clothing prices continued to decline with a year-over-year drop of 4.3 per cent. Retailers have discounted heavily to sell off excess inventory from the lost spring season. Gasoline prices rose from June, but were still down 11 per cent from a year ago.

Disinflation in services was driven by a drop in recreation prices (-6.7 per cent) as travel cost declined amidst discounting by airlines. Prices for personal care





services slowed while the homeownership index was steady at 0.8 per cent.

Low inflationary pressure is likely to continue given high levels of unemployment and uncertainties related to the economic recovery. Year-to-date growth in the consumer price index is at 0.8 per cent and likely to declined to about 0.5 per cent for 2020 before returning to about 1.5 per cent in 2021 as the economy firms.

New vehicles weakness diverge from retail sales performance

In a disconnect from retail sales numbers which posted year-over-year growth at motor vehicle and parts dealers, actual new motor vehicle sales remained down sharply in June. Sales in the region including B.C. and the Territories rose for a second straight month but remained sharply below pre-pandemic levels. At 13,780 units, vehicle sales declined 30.5 per cent from a year ago albeit an improvement from a 58 per cent decline in April. Seasonally- adjusted, sales rose 24 per cent from May. The sharp deviation between retail sales measures and unit will need to be examined but could reflecting timing of sales and used cars sold at dealerships. Divergent trends tend to converge over time.

Low new vehicle sales likely owes to various factors. A shift to remote work for many employees has limited the need for commuter (and secondary) vehicles and cut into replacement demand, while consumers are likely hesitant to make large ticket purchase aside from housing amidst economic uncertainty. Slower population growth is also cutting into demand.

Through the first half, sales declined 34 per cent, with the average price paid up 2.7 per cent. Sales are on track for a 20 per cent decline for 2020, which would compare to previous lows in 2009/10. The impact on economic growth is negligible as vehicles are imported to the province.

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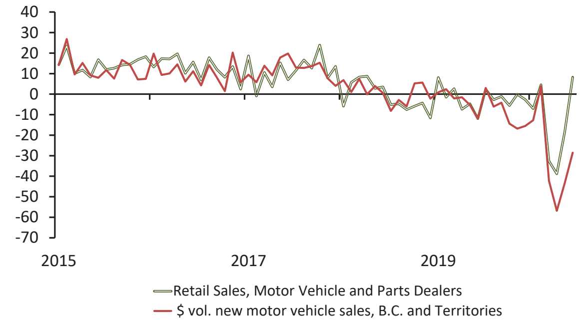
Divergent growth between new vehicle sales and retail store estimates in recent months

Dollar-volume sales, year-over-year per cent change



Source: Statistics Canada, Central 1