B.C. Economic Briefing

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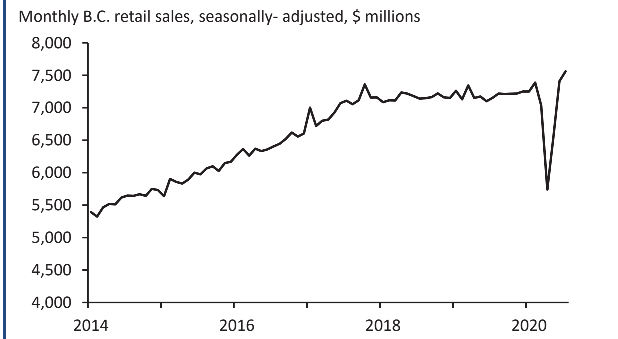
Highlights:

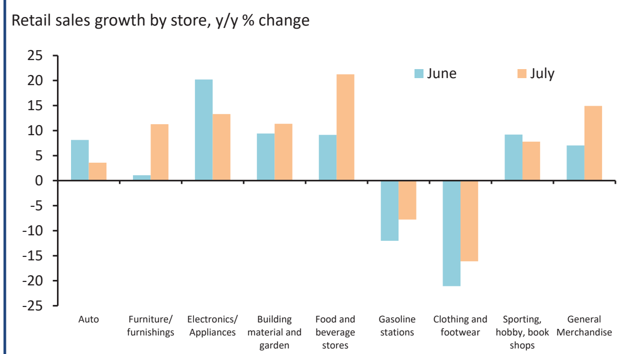
- Retail spending more than fully recovers in July
- Vancouver metro area sales growth lagged the rest of the province suggesting consumers in lower density areas were quicker to normalize shopping habits;
- Home sales are on pace to post a full-year gain of eight per cent;
- B.C.'s manufacturing sector remains subdued;

Retailers record a return to pre-pandemic sales



Source: Statistics Canada, Central 1, latest July 2020

Mixed growth among store segments



Source: CREA, Central 1, latest Aug 2020

Consumers flock back to the stores

Retail spending in B.C. rose for a third straight month in July as consumers continued to re-establish shopping habits while an active housing market and domestic tourism are further providing a lift to spending.

Total sales at brick and mortar stores rose 2.1 per cent from an upward revised June to reach a seasonally-adjusted $7.56 billion. After a decline of 22 per cent from February through April, the monthly sales flow has fully recovered with July's increase and rebounds of more than 12 per cent in June and 14 per cent in May. Sales sat 2.3 per cent above February levels in July. Actual unadjusted retail sales rose 7.8 per cent year-over-year. In comparison, national sales rose 0.6 per cent from June amidst a flat Ontario performance, and sales contractions in the Atlantic provinces. National retail spending came in 1.1 per cent above February levels.

Among store segments, trends were broadly positive. Year-over-year sales accelerated in furnishing and furniture and building materials stores (both up 11.3 per cent), while sales at electronic and appliance stores were up a robust 13.3 per cent, albeit slowing from June. This points to a rise in ancillary spending related to rising home sales which have surged across the province. Sales at clothing and footwear stores also firmed following closures in the Spring months but remained 16.1 per cent lower than same-month 2019. Food and beverage store sales surged 21 per cent from a year ago reflecting families staying home and away from restaurants and bars. Excluding motor vehicles sales and gasoline (which declined due to lower prices), core retail spending was strong with a 12.2 per cent year-over-year gain.

Regionally, Vancouver metro area sales lagged the rest of the province with a monthly increase of 0.9 per cent and a year-over-year gain of 3.1 per cent. In contrast spending rose 3.1 per cent from June and nearly eight per cent year-over-year elsewhere. This gap suggests consumers in lower density areas have normalized shopping habits more quickly. A ramp up in home sales particularly across the province is contributing to a boost in ancillary spending. Domestic tourism further ramped up for regions outside Metro Vancouver as households re-allocated spending from international travel to B.C. recreational areas.

Rebounding retail spending has lifted spending to within three per cent of 2019 year-to-date levels and signals a solid recovery in goods spending. That said, overall consumer spending has been softer as consumer spending on services such as restaurant meals, travel and personal services remains weak.. The pace of retail spending growth will further diminish given underlying economic conditions. Unemployment remains elevated and fiscal income supports to households and businesses are set to wind down or diminish. The domestic tourism boost this summer will wane as families head back to school after the summer, while international tourism remains essentially shuttered and conferences and events are non-existent. The strong housing cycle will likely temper due to the subdued economy despite low interest rates.

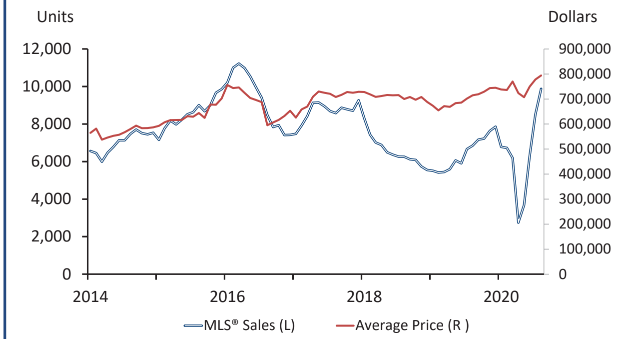
Provincial housing sales reach highest level since mid-2016

MLS® home sales are ascending into the stratosphere as demand for housing continued to surge through August. B.C. sales rose 16 per cent from July to a seasonally- adjusted 9,878 units and marked the highest pace of monthly sales since the hey-days of mid-2016. After an initial decline of 60 per cent from February through April at the onset of the pandemic and policies to stem the spread of the virus, sales have more than bounced back to 45 per cent above February levels. Unadjusted sales rose 43 per cent year-over-year.

While much of the focus is on the largest urban markets such as Vancouver, sales are up sharply across the province. The strongest relative gains to February were observed on Vancouver Island and Northern B.C. (both up 52 per cent), while gains near 45 per cent were recorded in other regions including the Lower Mainland – Southwest. Undoubtedly a portion of the strong bounceback has reflected a catch up in sales after the non-existent spring season, but it is more than this. Short- term housing affordability has improved with 5-year rates tumbling below two per cent. Sharp employment declines have disproportionately been felt by lower income earners, while others were in sectors unaffected by physical distancing requirements or could work from home. Many households were able to increase savings during the period. Meanwhile, household preferences have changed with buyers seeking more space or looking at more outlying regions given work-from-home availability. Demand for recreation properties are also on the rise.

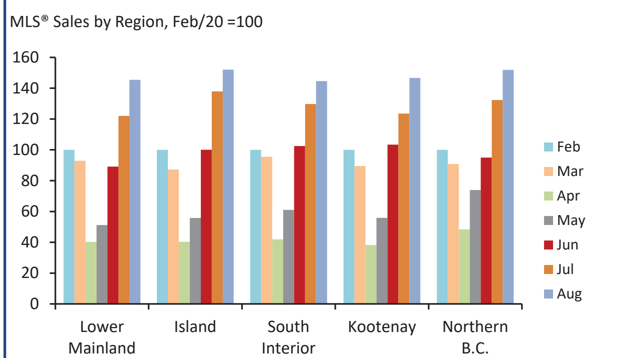
Higher new listings provided more choice for buyers in August, but also contributed to higher sales. However, sales-to-inventory ratios further tightened to nearly 30 per cent, a level well into sellers' market territory. The market for ground-oriented units is particularly strong.

Housing demand surge continues into August, prices rise



Source: CREA, Central 1, latest Aug 2020

Sales up sharply across B.C.



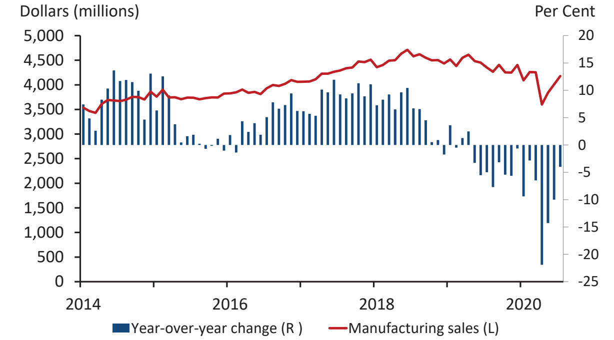
Source: CREA, Central 1, latest Aug 2020

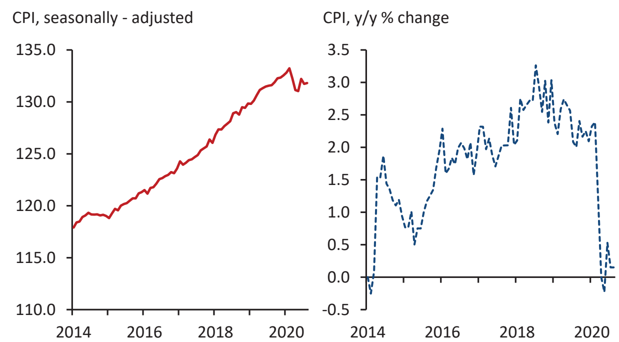
Tight market conditions are lifting prices with the provincial average up 2.1 per cent from July to $794,344 and a new record high. Product and geographic composition are a factor, although values continue to march higher across regions.

Unit sale through the first eight months are now up 4.9 per cent. The current pace of sales is expected to wane near the end of 2020 as demand dampens given underlying economic factors but sales are on pace to post a full-year gain of eight per cent. Year-to-date the average price rose 10 per cent.

Manufacturing sales rise for a third straight month

B.C. manufacturing sales rose for a third straight month in July but remained shy of a full rebound to post-pandemic February levels. Dollar-volume manufacturing sales rose to $4.17 billion in July, up a robust 4.3 per cent from June, but down 1.9 per cent from February. Broadly, B.C. manufacturers have been less impacted by the pandemic. At its trough, national manufacturing sales fell 35 per cent from February





through April, with B.C. down 15 per cent. The former was still down 5.4 per cent in July. This deviation reflects differences in manufacturing composition, with the largest declines occurring in motor vehicle and parts sectors as well as energy, both of which are less prominent in B.C.

July gains were led by a 12 per cent increase in wood product manufacturing which contributed to 51 per cent of the net monthly increase. Sales have ramped up amidst stronger trends in U.S. and Canadian housing starts, renovation activity and sharp increases in lumber prices. Other contributors to the lift included transportation and equipment (up 21 per cent) which made up 20 per cent of the gain, while fabricated metal products also gained.

Despite the shallow decline and substantial recovery, B.C.'s manufacturing remains subdued. Sales were down four per cent year-over-year and on a downward trend since mid-2018. Recent gains are supportive, but the forestry sector remains weak with both the wood products sectors and paper manufacturing on a downward trend. The lumber sector continues to grapple with long-term effects of the mountain pine beetle on timber supplies, albeit with current support from high prices. Primary metals manufacturing was down 14.5 per cent year-over-year reflecting weakness in the global economy, while lower investment has hampered a recovery in machinery production. Year-to-date manufacturing fell 9.8 per cent through the first seven months, and while this will narrow challenges from an economy operating below capacity and weak investment will continue to weigh.

Inflation muted in August

Consumer price inflation in B.C. remained muted in August as the consumer price index slipped from July while headline year-over-year growth came in at 0.2 per cent. This compared to a national year-over-year gain of 0.1 per cent increase nationally.

Broadly, flat consumer pricing reflected sharp lower gasoline prices from a year ago of 9.3 per cent. While this was shallower than the 11.5 per cent drop in July, it reflected a dip in the price a year ago, rather than rising prices in the latest month. Even excluding energy prices, inflation was soft at 0.5 per cent. The pandemic led dip in demand (and in some cases supply of goods and services) has triggered lower prices for recreational travel related services such as accommodations (-26 per cent) as well as discounted flights. Clothing and footwear prices declined 1.8 per cent from a year ago but less of a drag than July when prices declined 2.8 per cent. A shift in seasonal clothing and less inventory overhang when stores closed during the pandemic have likely firmed prices. Food prices also decelerated to a 1.7 per cent year-over-year gain, down from 2.6 per cent as meat and fresh food prices eased. In contrast, increased need for sanitization and protective equipment is lifting personal care service prices (up 4.6 per cent), particularly as related to haircare.

Inflationary pressure is likely to be kept in check due to a soft demand environment and restrictions in areas such as tourism. Average inflation for 2020 is forecast to average 0.5 per cent with a 1.3 per cent rate in 2021.

Bryan Yu
Deputy Chief Economist
byu@central1.com / P 604.742.5346
Mobile: 604.649.7209