Economics | Current Economic Trends

B.C. Economic Briefing

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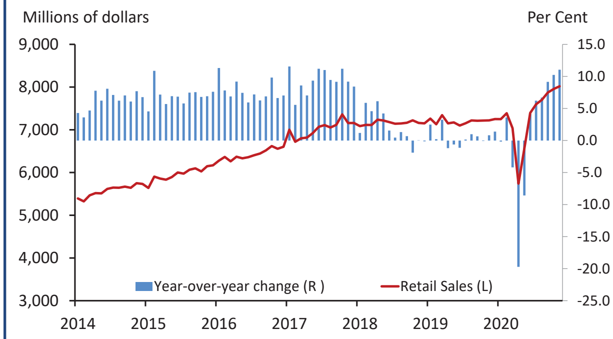
central 1 Economics

Highlights

- B.C. retailers reached record high in November ahead of holidays
- Housing starts end 2020 on a high note; bodes well for 2021
- Forestry sales reverse manufacturing momentum in November
- B.C. headline CPI down 0.8 per cent in December

B.C retail spending marches to another high in November



Source: Statistics Canada, Central 1

Another solid gain for retail spending in November but second wave to cut short momentum

Brick and mortar retailers in B.C. maintained upward sales momentum through November to reach another record high, although growth decelerated from recent months. Dollar-volume sales surpassed $8 billion for the first time with a 0.8 per cent increase and seventh straight monthly gain. Year-over-year spending rose 11.1 per cent. Metro Vancouver accounted for the bulk of the increase with sales up 1.4 per cent from October. In comparison, national growth rose 1.3 per cent from October and 7.5 per cent year-over-year.

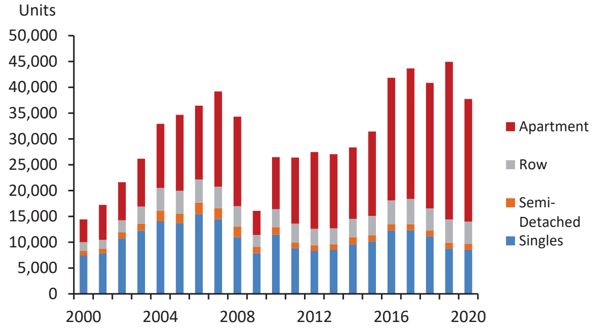
This likely marks the end of the upswing as sales faltered through December and into January. The second wave of COVID-19 has curtailed consumer confidence and triggered increased economic restrictions from November onwards in various provinces. Additionally, this is was not a normal holiday season and the sector likely took a hit in the absence of holiday events and celebrations. Statistics Canada's advance estimate for December is for a 2.6 per cent drop in national sales. B.C. is poised to perform relatively better given fewer restrictions on retail businesses in the province as compared to Ontario, Quebec and Manitoba. Businesses are also better positioned in the event of further restrictions given pivots to online offerings and curbside pick-up.

While December is expected to disappoint, it is helpful to review November's lead-in which still underscores key themes in consumer demand. Increased sales were reported by electronic and appliances stores which rose 30 per cent year-over-year, up from 20 per cent in October, and likely reflected ancillary demand from a hot housing market, although furniture and furnishing shops saw a slowdown in activity. With nowhere to go, sporting good and recreation shops saw a lift in spending with sales up 41 per cent year-over-year in November. In contrast, sales declined in a number of segments, contributing to lower year-over-year growth for the month. The steepest declines were in clothing stores, which fell 13 per cent compared to a 1.6 per cent drop in October as work-from-home and lack of events have hammered the sector and led to heavy discounting. Vehicle sales slipped after a strong October.

Through 11 months, retail spending rose 1.6 per cent, and excluding motor vehicle sales and gasoline, was up a whopping 6.5 per cent pointing to strong core demand. Not surprisingly, households have re-allocated spending from restaurants and recreation to the home, lifting sales from food and beverage, electronics, and building materials stores by 14 per cent. General merchandisers saw an 8.4 per cent increase in sales. Primary losers for 2020 were clothing retailers (down 26 per cent) and gas stations (down 26 per cent).

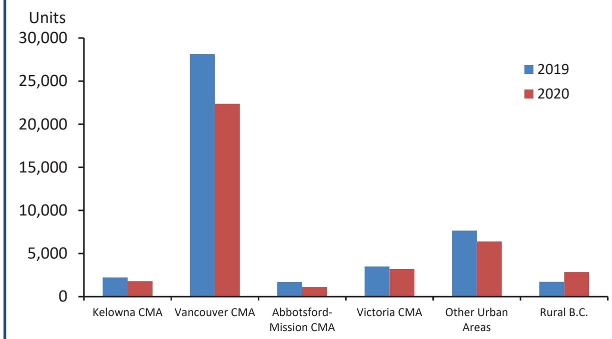
Consumer spending is likely to have decelerated through early 2021, although a shift to e-commerce sites continues and provides support for businesses. E-commerce made up 7.3 per cent of total retail trade in November, up from 5.4 per cent in October. This theme will continue even after the second wave and pandemic ends, but retail spending is expected to grow by five per cent in 2021.

Annual B.C. housing starts decline nearly 20 per cent despite strong end to 2020



Source: CMHC, Central 1

Starts decline in urban areas, rise in rural B.C.



Source: CMHC, Central 1

Housing starts end 2020 on a high note

B.C. housing starts ended 2020 on a strong note according to the latest Canada Mortgage and Housing Corporation data, despite the omission of Kelowna information due to COVID-19 related impacts on regional data collection. Nevertheless, comparable urban-B.C. housing starts (excluding Kelowna) came in at an annualized pace of 39,688 units which was down from a robust 44,455 units in November but marked the second highest monthly pace for 2020. The decline reflected a pullback in apartment starts which often show sharp monthly fluctuations.

Metro Vancouver contributed to the entirety of the decline, falling from an annualized pace of 33,052 units in November to 26,187 units, while Victoria (up from 2,758 units to 4,330 units) and Abbotsford-Mission provided partial offsets. Recent strength in new home construction has reflected one-off gains as large projects got underway while detached home starts have been firmer amidst robust housing demand in smaller markets and suburban areas during the pandemic.

The omission of December Kelowna data artificially deflates 2020 annual values, but impact was minor given the number of units the regions represents in a single month. Last December, Kelowna reported 80 housing starts. Annual B.C. urban- area housing starts reached 34,885 units in 2020, marking a 19 per cent decline from 2019. Detached housing declined seven percent, while multi-family starts fell 22 per cent. Not surprisingly, condominium tenure starts drove the drop with a 28 per cent decline to 17,581 units and the lowest since 2015, while rental construction fell 10 per cent to 10,903 units but remained in line with elevated levels observed since 2016.

Metro Vancouver posted a 21 per cent decline to 22,371 units, Victoria declined eight per cent to 3,209 units and Abbotsford- Mission posted a 34 per cent drop to 1,110 units. Starts fell 19 per cent in Kelowna. Combined starts among smaller urban areas fell 16 per cent in 2020.

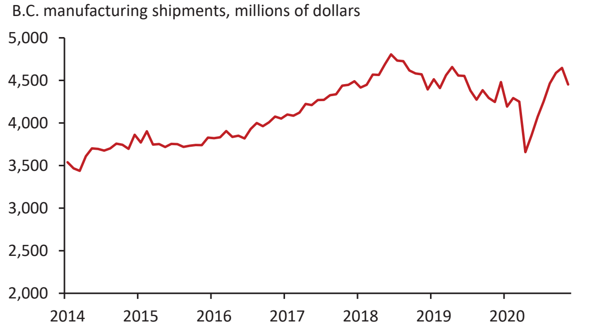
New home construction in rural areas fared much better with starts up 65 per cent to 2,849 units, contributing to a more modest combined urban/rural decline of 16 per cent to 37,734 housing starts in 2020 following record 2019 starts. This was however the fewest provincial starts since 2015.

The solid hand off from 2020 bodes well for a rise in starts for 2021. Strong resale market activity and lack of inventory is triggering building of homes, and likely to lift pre-sale activity for condominiums. This is likely to move more projects into construction phase. An offsetting factor is low immigration during the pan-demic and less investment demand due to a soft rental market which negatively affects investor demand. Housing starts are expected to rise modestly this year by about five per cent.

Forestry sales reverse manufacturing momentum in November

Manufacturing sector momentum in B.C. took pause in November as monthly sales dipped for the first time since April's pandemic driven drubbing. Dollar-volume factory sales declined 4.2 per cent ($194.9 million) on a seasonally- adjusted basis to $4.45 billion, marking the lowest level since July, but still 4.8 higher than same- month 2019 with an upward trend still intact for now.

Manufacturing momentum takes pause in November



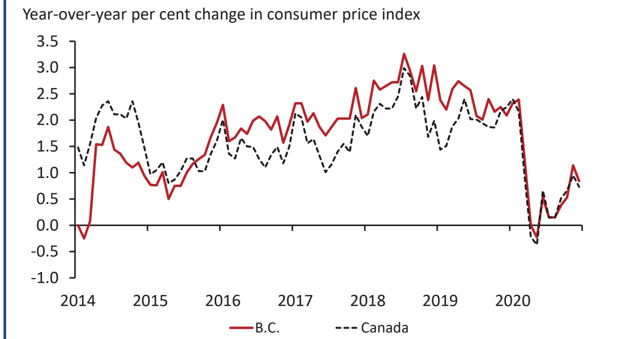
Source: Statistics Canada, Central 1

November's story was largely a forestry tale. Paper and pulp sales retraced 21 per cent following an October surge while wood products shipments, which have propelled topline growth since June, declined 8.7 per cent. Dollar-volume declines in each of these sectors came in at nearly $90 million, representing most of the total B.C. manufacturing decline during the month. Despite the pullback, wood product sales were still up 30 per cent from June and 10 per cent on a year-over-year basis owing in large part to substantial gains in related commodity prices.

Manufacturing was mixed among other sectors, with total sales excluding forestry down 0.5 per cent from October. Food production fell one per cent, while primary metal manufacturing fell 4.4 per cent. Offsets included a 5.9 per cent increase in chemicals and eight per cent gain in fabricated metal products.

Despite the upward trend, year-to-date manufacturing sales were still 4.4 per cent lower through 11 months amidst a 2019 downtrend and early pandemic losses owing to a period of commodity price weakness and weak capital investment. A 6.1 per cent increase in wood product sales and 4.2 per cent increase in food sales continued to be offset by sharply lower paper manufacturing (down 18 per cent), primary metals (down 8.6 per cent), fabricated metals (down 16.7 per cent), and machinery (down 11 per cent) production. Manufacturing will be challenged through the first quarter given the COVID-19 second wave and economic restrictions impacting central Canada and global markets. This will likely hamper demand for both consumer and capital goods, but vaccine deployment and improved outlook for later in the year is expected to lift demand.

Consumer price inflation pulls back in December



Source: Statistics Canada, Central 1

Consumer price inflation slows in December

Consistent with the national picture, headline consumer price inflation in B.C. decelerated in December. Year-over-year growth in the consumer price index fell to 0.8 per cent from 1.1 per cent in November. In comparison, national CPI inflation fell from 1.0 per cent to 0.7 per cent.

Softer inflation was observed broadly across many consumer goods and services. Specifically, clothing and footwear prices declined 5.4 per cent year-over-year following a 2.9 per cent decline in November. Merchants heavily discounted prices in what would normally be a strong holiday buying season due to the pandemic. Travel accommodation prices declined 18 per cent year-over-year, which is not surprising given the pandemic. On the housing front, rental accommodation costs fell 0.5 per cent from a year ago while ownership costs accelerated to 3.3 per cent despite lower mortgage interest costs as price rose. Rental market demand has weakened amidst fewer students, immigrants and tourist demand for short-term rental suites.

Food and gasoline price inflation was modest but supported inflation. Food prices rose two per cent from 1.6 per cent in November as prices accelerated for both store-bought and restaurant meals. Gasoline prices rose from November due to higher crude prices but 12-month growth were still down 9.4 per cent from same-month 2019. Personal care service prices rose 12 per cent from a year ago, likely reflecting the flow through of more sanitation expenses. Overall goods prices were unchanged on a year-over-year basis, while services prices rose 1.4 per cent.

Inflation remains soft in the province, reflecting the weaker demand environment caused by the pandemic. Headline CPI inflation is likely to accelerate from March through May given a base year effect from a temporary drop in gasoline prices in 2019, before stabilizing.

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