



## Highlights

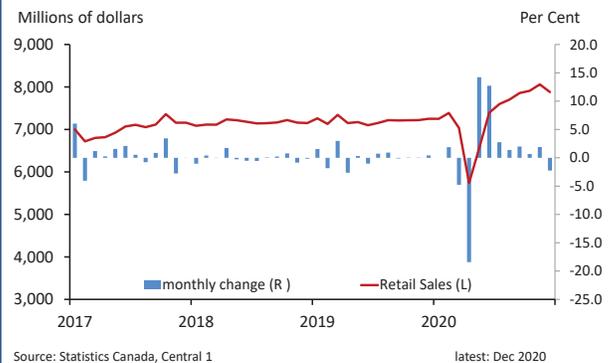
- B.C. December retail sales declines 2.2 per cent to \$7.88 billion in December;
- B.C. annual sales rose 2.4 per cent while national sales fell 1.3 per cent in 2020;
- Stellar housing market demand continued through January, driven by the low mortgage rate environment and households moving out of urban areas;
- Housing demand expected to pull back to more normal levels after first quarter 2021;
- Annual manufacturing sales slipped 3.5 per cent to \$51.5 billion despite wood products rising 10 per cent;
- CPI inflation rebounds to 1.1 per cent.

## A not so happy holidays for retailers

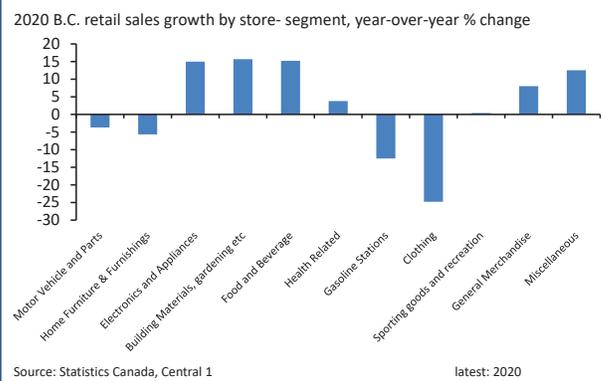
Not surprisingly, retail sales took a body blow in December. National sales contracted by 3.4 per cent from November, with B.C. only slightly better with a decline of 2.2 per cent to \$7.88 billion. The combination of enhanced retail restrictions in some markets and overarching theme of lower holiday demand due to restrictions on social and family gatherings undoubtedly curtailed a normally busy shopping period.

B.C.'s decline marked the first contraction since an April plunge although the drop off is likely to be short-lived. Sales remained above year-ago levels by 8.7 per cent highlighting the strength of recovery since the Spring. December's pullback was driven by a deepening of sales declines at clothing stores, which fell 14.5 per cent, year-over-year, which is not surprising given gifting popularity and holiday demand. Sporting stores and general merchandisers also showed deep erosion in sales from November, but still maintained a slight edge over year ago sales. Motor vehicle sales slipped from November by about two per cent. In contrast, partial offsets came in the home furniture and furnishing which gained 17.2 per cent year-over-year, burnished by surging housing activity while renovation demand lifted sales at building material/gardening shops (up 28 per cent).

## Holiday spending crumbles amidst pandemic



## Households reallocate spending in 2020



On a full-year basis, B.C. sales rose 2.4 per cent with sales growth concentrated in housing-related and food and beverage stores. National sales fell 1.3 per cent. This reflects the changing pandemic patterns as people shifted their spending to the home front. With events and travel effectively shuttered, and fears about in-restaurant dining, households have re-allocated spending to home-cooked meals and entertainment, while individuals have also invested in their new work-from-home space. In contrast, clothing stores, vehicle dealerships, and gas station posted lower sales. E-commerce sales have also risen sharply eroding traditional sales and makes up about 7.8 per cent of all retail spending, compared to less than five per cent a year ago.

Retail spending is forecast to rise about five per cent this year as the economic recovery continues and employment rises. Vaccine deployment is likely to rotate sales back towards some of the hardest hit sectors, and lift demand for durable goods like new vehicles.

## Housing market boom continues into January

Stellar housing market demand continued through January as sales ripped higher to a record high performance. B.C. MLS® sales rose 4.2 per cent from December to as seasonally-adjusted 11,991 units. The previous high came in during the heady days of 2016 when levels reached 11,350 units. Unadjusted for normal seasonal patterns, January sales of 7,206 units was 64 per cent above both year ago and the 10-year average of January sales.

Home sales rose across the province from December with monthly growth concentrated outside the Lower Mainland. Relative to December, sales growth exceeded five per cent on the Island, interior markets and northern regions compared to three per cent in the Lower Mainland-Southwest. Record or near-record sales trends are being observed across the province.

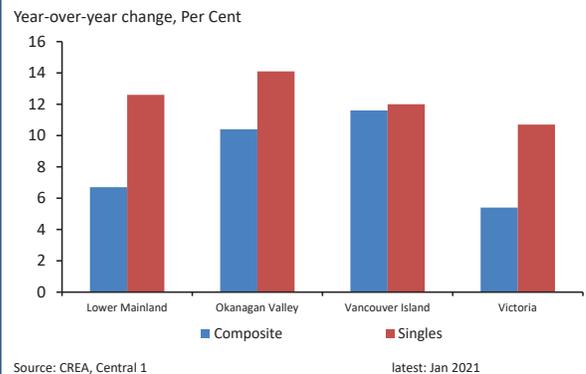
Demand remains driven by the low mortgage rate environment, while the broad strength of home sales is consistent with anecdotal evidence that the pandemic has contributed to dispersion of demand towards suburban and smaller markets. The work-from-home reality and high prices in larger metro areas has made living further afield an option to realize dreams of more housing space and green space. These demand factors have more than offset pandemic weakness in the labour market that has largely affected lower paid occupations and declines in immigration.

Robust demand is outstripping new supply of listings in the market, which fell in January. Inventory levels have declined since August and plunged six per cent in January on a seasonally-adjusted basis to the lowest trend since early-2018. Sales-to-active listings are tracking peaks from previous price booms with a ratio near 40 per cent which is clear in rapid price appreciation. The average provincial price reached \$853,890 marking a 2.7 per cent monthly gain and 16 per cent year-over-year gain. The latter represents a gain of more than \$115,000 over a 12-month period. While the shift towards larger homes is a factor in large average gains, underlying appreciation is strong. MLS® benchmark prices, which adjusts for composition factors, rose 6.7 per cent in the Metro Vancouver/Abbotsford-Mission, 10.4 per cent in the Kelowna area, 11 per cent on the Island outside Victoria, and 5.4 per cent in Victoria. In all markets single-family home price growth has exceeded the broad composite, with gains of more than 10 per cent.

### Housing market surge continues into 2021



### MLS® Housing Price Index Growth, B.C.



Elevated demand and price growth will extend through this quarter but we expect demand to pull back to more normal levels. Eroding affordability and low immigration are expected to dampen market conditions.

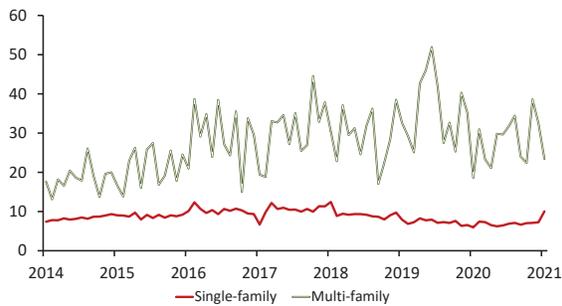
### Housing starts stall in January

Further on the housing front, CMHC's latest housing starts data pointed to slower B.C. housing starts in January. Urban-area starts slipped from an annualized pace of 39,748 units in December to 33,488 units. That said, monthly fluctuations are common and levels within the range observed over the past year. Moreover, actual starts well outpaced same-month 2020 by 35 per cent due to a weak start to 2020.

January's pullback owed entirely to lower multi-family unit construction which fell to 23,460 units from more than 32,000 in December. In contrast, detached starts jumped from 7,269 annualized units to more than 10,000 units. Among metro areas, Metro Vancouver and Victoria accounted for the entirety of the decline. Kelowna starts rose to 1,039 units but compared to no

## Housing starts dip in January as fewer apartment units ease

B.C. housing starts, SAAR (000s)



Source: CMHC, Central 1

latest: Jan 2021

recorded units December when COVID-19 impacted regional data collection. The latest figures align with rising demand for homes in smaller areas due to the pandemic.

Current units under construction in B.C.'s four largest metro areas sat at nearly 53,000 units in January which is down three per cent from a year ago. While still elevated, lower levels of construction has reduced jobs in the sector.

Annual housing starts are expected to rebound and rise modest to 38,300 units in 2021 from 37,700 in 2020.

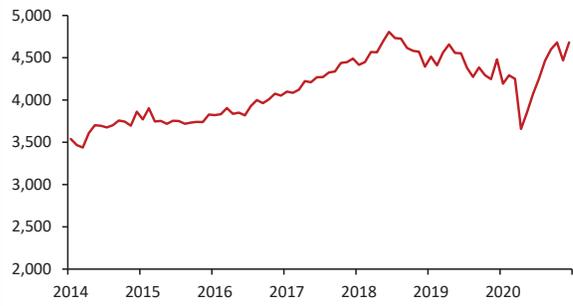
## Forestry leads manufacturing rebound in December

B.C. manufacturing sales rebounded nicely in December after a November dip. Factory sales rose 4.7 per cent (\$211 million) to a seasonally-adjusted \$4.68 billion – enough to reverse the prior month decline and maintain the upward trend that followed early-pandemic declines. Year-over-year sales growth came in at 4.5 per cent.

Mirroring the previous month's decline, December's gain owed largely to a rebound in wood products where sales increased 18.5 per cent or \$184.3 million, representing 87 per cent of the net gain. Growth largely reflected higher prices. Wood products have surged in recent quarters, with year-over-year growth above 60 per cent during the month. Paper sales also jumped 5.9 per cent, contributing about 10 per cent to December's headline growth. Other notable changes from November included food products which rose 3.6 per cent, while machinery production fell 3.7 per cent, and primary metals declined four per cent.

## Manufacturing sales rebound on forestry

B.C. manufacturing shipments, millions of dollars



Source: Statistics Canada, Central 1

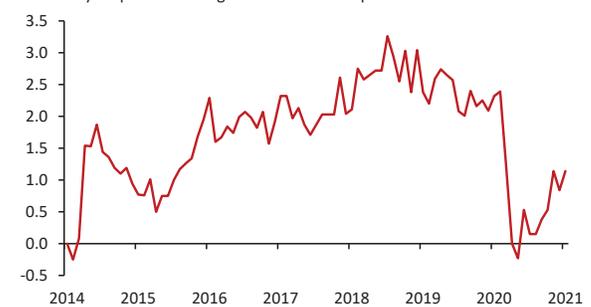
latest: Dec 2020

Annual manufacturing sales still slipped 3.5 per cent to \$51.5 billion despite the upward trend. Wood products was the key sector of strength with a gain of 10 per cent (\$993.7 million) due to surging prices while food product sales also increased. This was not enough to offset other declines including a 17 per cent (\$838 million) decline in paper sales, a 16 per cent (\$678 million) drop in fabricated metals, and significant declines in primary metal. Going forward, strengthening commodity prices and export demand is expected to support manufacturing production.

## CPI inflation rebounds to 1.1 per cent

### Consumer price inflation pulls back in December

Year-over-year per cent change in B.C. consumer price index



Source: Statistics Canada, Central 1

latest: Jan 2021

Consumer price inflation in B.C. rebounded in January to a year-over-year pace of 1.1 per cent after slipping to 0.8 per cent in December. Gasoline prices, while still lower than a year ago, rose during the month to create less drag on inflation. January gas prices were down six per cent, compared to a 9.4 per cent decline in December. Natural gas prices surged 20 per cent year-over-year, compared to a 10 per cent December gain. Higher energy prices reflect underlying commodity price growth, specifically a rise in crude prices as oil producing countries cut back on production.

Household furnishings and equipment accelerated to a 6.2 per cent gain, and likely reflected the impact of strong housing demand on ancillary demand and prices. Shelter inflation remained steady at 2.3 per cent, but ownership costs (up 3.1 per cent) were partly offset by lower rental costs.

In contrast, prices for clothing and footwear posted sharper priced declines of 6.8 per cent as businesses slashed prices during a poor holiday season amidst excess inventories. Food price acceleration also decelerated from a two per cent gain in December to 0.8 per cent in January, but owed largely to a base-year effect following a spike in prices last January for store-bought foods.

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