Economics | Current Economic Trends

B.C. Economic Briefing

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central 1 Economics

Highlights

- Inflation slowed in B.C. largely thanks to falling gasoline prices by base year effects
- Core inflation was down to 4.7 per cent in March
- Greater multi-family home units in March led B.C.'s gain in housing starts
- B.C. retail spending retreats sharply in February
- Wholesale trade in B.C. fell by 5.1 per cent in February
- Number of travelers entering B.C. hold steady

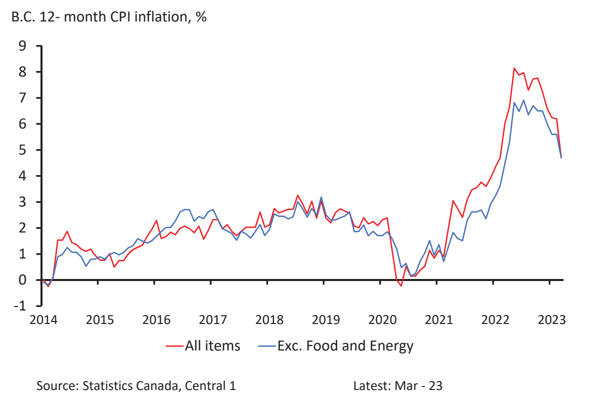
B.C. inflation down in March on lower gasoline and energy

Ivy Ruan, Economic Analyst

The March Consumer Price Index (CPI) in B.C. slipped down to 4.7 per cent year-over-year compared to 6.2 per cent during the previous month. The result was driven in large part by base year impacts of a strong increase in prices last March (1.9 per cent m/m), specifically, gasoline prices. On a monthly basis, the provincial CPI rose 0.4 per cent as consumers still faced higher prices, but inflation patterns are decelerating. The core CPI (excluding energy and food) in B.C. was down from last month by 0.5 per cent. Year-over-year core CPI was down from 5.6 per cent in February to 4.7 per cent in March. Goods prices increased 0.5 per cent over the month while services prices grew 0.3 per cent.

Gasoline prices in B.C. continued to drop on a year-over-year basis. The fall in gasoline prices was mainly driven by steep price increases in March last year, when gasoline rose 11.8 per cent month-over-month as Russia-Ukraine war started on February 24, 2022 . Overall, energy prices were also down 4.9 per cent for the month. That said, on a monthly basis, B.C. gasoline prices rose 1.0 per cent and energy prices rose 0.7 per cent in March, the third consecutive monthly increase for both categories. Increased supply constraints due to refinery outages and clean fuel regulations added to inf lationary pressure to gasoline prices as demand mounted.

B.C. Inflation slowed in March



Meanwhile, food prices in B.C. remained elevated on a year-over-year basis, up 7.8 per cent from March last year, yet slowed down from last month's 9.8 per cent yearly growth. The monthly figure was down slightly by 0.5 per cent. B.C. shelter costs' yearly growth also slowed, down from 6.5 per cent to 5.3 per cent in March. That said, shelter price edged up 0.2 per cent month-over-month and interest costs continued to surge.

While headline inflation has slowed in recent months, prices remained elevated. Potential price hikes in gasoline and energy related products will gradually pass on the costs to transportation, businessand consumers. Services cost s tayed relatively strong and wage growth is likely to lift prices. This component of prices will take longer to fall to target levels.

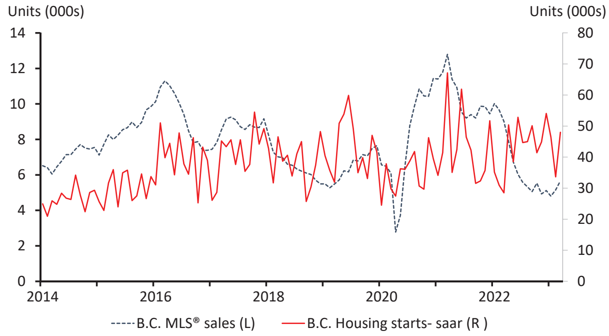
B.C. housing starts back on the rise in March following the two preceding declines

Eloho Ennah, Economic Analyst

B.C. housing starts bounced higher in March, following two consecutive monthly drops at the start of the year. Housing starts rose 39.5 per cent to reach a 47,994 seasonally adjusted annualized pace. B.C. and New Brunswick were the only two provinces which recorded monthly increases.

The increase in housing starts was led by a surge in multi-family home starts.These increased by 48.7 per cent to 43,180 in March and more than made up for February's 29.5 per cent decrease. Single-detached

B.C.'s gain in housing starts as a result of greater multi-family home units in March



Source: CMHC, CREA, Central 1 Latest: Mar-23

housing starts continued in downward trajectory as volumes dropped further in March to 4,814, down by 10.2 per cent from the prior month. Monthly multi-family starts are highly erratic given the impact that large projects can have in any given month.

Amongst the census metropolitan areas (CMAs), housing starts where notably up in the Vancouver CMA. Vancouver housing starts, which nearly doubled to reach 36,361 drove the provincial gain in March. Kamloops's figure was also up 144.8 per cent to 142 units, while starts increased by 6.9 per cent to 3,904 units in Victoria. Kelowna, Abbotsford-Mission, Chilliwack and Nanaimo all reported declines in monthly housing starts figures. In Nanaimo, starts were down 84.5 per cent while in Abbotsford-Mission, they were down 68.0 per cent during the month. Kelowna recorded a decrease of 45.3 per cent and in Chilliwack starts dropped further by 55.3 per cent.

Compared to first quarter of 2022, actual unadjusted B.C. housing starts were 39.2 per cent ahead of year ago and concentrated in multi-family home starts which increased by 58.2 per cent compared to same period in 2022. On the other hand, single-detached units fell 31.5 per cent. This divergence reflects build out times as multi-family projects are planned years in advance, while single-family housing patterns reflect more current conditions.

Q1 total housing starts in Vancouver were up 65.2 per cent, with higher multi-family home units contributing to the gain. Kelowna also reported an increase in housing starts which rose 217.7 per cent, while Victoria recorded a 32.7 per cent increase. Large declines were seen in Abbotsford-Mission and Chilliwack where starts dropped 62.0 per cent and 84.1 per cent respectively. Similarly, Kamloops and Nanaimo also experienced declines, with starts falling by 49.1 per cent and 42.5 per cent respectively.

Retail spending in B.C. plunges in February

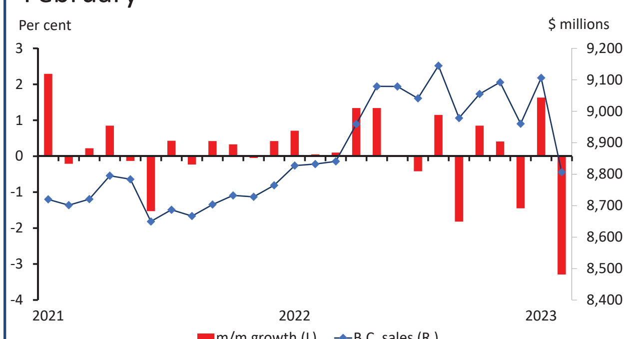
Bryan Yu, Chief Economist

B.C. retail spending recoiled in February as sales slumped 3.3 per cent (seasonally adjusted) to give up all of January's gain and fell to the lowest level since March signaling weakness in consumer spending despite job gains and strong population growth. This marked the deepest one month decline since early in the pandemic after an uneven range-bound pattern for much of the last 12 months. Nationally, retail sales fell by a more modest 0.2 per cent (and 0.7 per cent after adjusting for higher price levels). Early estimates point to a further sales reduction in March as pass-through of higher interest rates on spending and rotation towards services-demand continues to bite on activity.

Regionally, reduced spending was concentrated in Metro Vancouver where sales retraced 4.4 per cent, although sales were down a significant 2.2 per cent elsewhere in B.C.

Unadjusted sales fell 0.8 per cent year-over year (y/y), compared to a 3.9 per cent increase in January. The pullback owed to a severe decline at motor vehicle and parts dealers where sales fell 8.7 per cent and driven by a near 12 per cent decline at new car dealers. This was at odds with the national pattern where sales were substantially higher and could reflect higher interest rate sensitivity. Gasoline sales slowed from a 13.9 per cent y/y pace to 6.5 per cent in part due to lower prices.

B.C. retail spending retreats sharply in February



Source: Statistics Canada, Central 1 Latest: Feb - 23

Excluding these two segments, core retail sales were up 0.9 per cent y/y, which was down from 4.1 per cent in January as sales broadly slowed. Specifically, housing-related spending fell sharply as the sluggish housing market reduced demand. Sales at building materials and garden stores declined 27 per cent y/y, while furniture retailers saw a 26 per cent contraction.

However, electronic and appliance retailers saw sales rise 19.5 per cent. Pass through of higher food prices and profits lifted grocery store sales by 14 per cent.

B.C.'s February sales retrenchment could easily have rose again in March given the large pullback and more life in the housing market. That said with preliminary national estimates declining 1.4 per cent m/m, trends are likely to remain subdued due to elevated interest rates and a slowing economy.

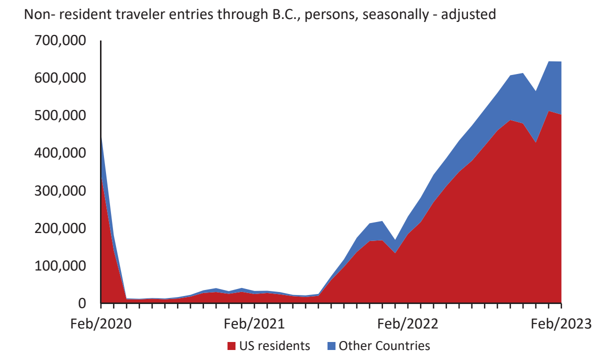
B.C. wholesale trade declines in February

Alan Chow, Business Economist

Wholesale trade in B.C. slide in the month of February. On a seasonally adjusted basis, wholesale trade declined 5.1 per cent from $8.2 billion in January to $7.8 billion in February after increasing 15.4 per cent in January from $7.1 billion to $8.2 billion. This decline was greater than that seen in Canada as a whole, where it declined 1.6 per cent. It was also 2.7 per cent below the trailing 12-month average of $8.0 billion. The overall trend has indicated that levels have plateaued with the trailing 12-month average for the last 6 months hovering around that $8.0 billion figure.

The decline was led by the two largest subsectors in B.C. Building material and supplies was down 12.8 per cent from $2.0 billion to $1.7 billion. This figure is also substantially lower, down 26.0 per cent, than the trailing 12-month average. Machinery, equipment and supplies, which is the other large subsector, saw a monthly decline of 10.5 per cent to $1.7 billion in February after increasing 30.5 per cent in January. This figure, however, is still 1.8 per cent above the trailing 12-month average.

Non-resident travel to B.C. edges flat in February, fewer U.S. visitors but more from other countries



Source: Statistics Canada, Central 1 latest: Feb/23

Fewer same day excursions enter B.C. balanced by more overnight visitors

Alan Chow, Business Economist

The number of non-resident visitors entering Canada through B.C. was virtually unchanged in February. On a seasonally adjusted basis, there were 0.1 per cent fewer visitors in February than there were in January, holding steady at a revised number of around 644,000. However, the make up of these visitors changed slightly with fewer same-day excursions, down 10.0 per cent and more overnight tourists, up 5.6 per cent.

The number of U.S residents visiting declined slightly, down 1.9 per cent from January to February, but making up that fall was the increase in the number of visitors from other countries, which increased 7.0 per cent for the month of February. Amongst the U.S. residents, fewer came via automobile , down 5.3 per cent while more came via other modes, up 4.9 per cent. Air travel from the U.S. remained steady, seeing only a decline of 0.1 per cent. Residents from other countries saw a 14.1 per cent increase when coming by air but saw a 11.3 per cent decrease when coming by land or water.

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