

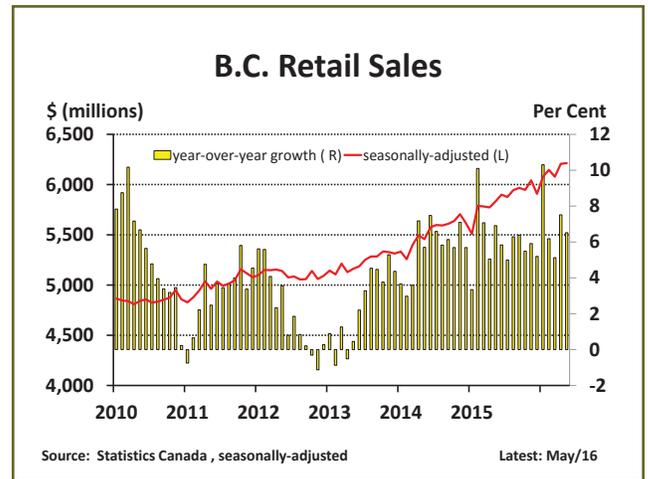
HIGHLIGHTS:

- Retail sales in B.C. were nearly unchanged in May but remains on a strong uptrend driven by strong consumer demand from country-leading employment growth, robust housing, as well as surging tourism spending
- Despite monthly decline, new vehicle sales remain high signaling strong consumer demand
- International tourist inflows fall after strong April performance
- Headline CPI growth climbs to two per cent

Retail spending steady in May, upward momentum persists

Retail sales in B.C. were nearly unchanged in May as a decline in motor vehicle and parts sales, and decelerated gains at most store-types held back growth after a strong April gain. Total sales volume in the province reached a seasonally-adjusted \$6.21 billion, marking a 0.1 per cent gain from April.

Despite the pause, retail spending remains on a strong uptrend driven by strong consumer demand from country-leading employment growth, robust housing, as well as surging tourism spending. May’s year-over-year gain of 6.5 per cent (seasonally-adjusted), while down from April, exceeded the national increase of 3.6 per cent. Among store segments, double-digit growth in furniture and furnishings, electronics and appliances, and building materials led year-over-year growth, reflecting strong demand for housing. The vast majority of retail segments posted healthy sales gains from a year ago, with the exception of food and beverage and sporting goods stores.



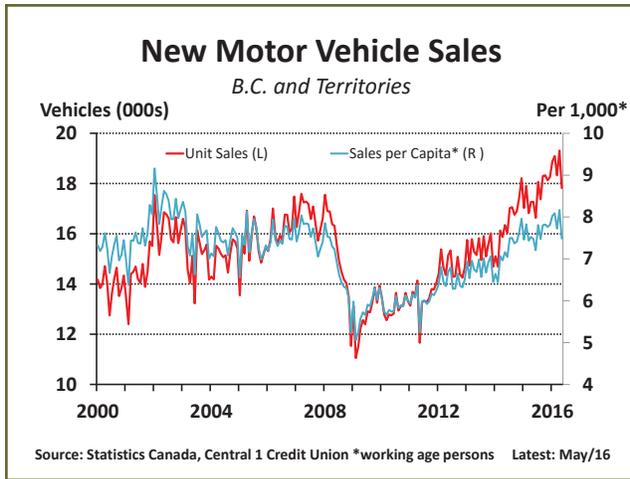
Year-to-date B.C. sales climbed 7.2 per cent, compared to 4.8 per cent nationally. Metro Vancouver with its robust economy is unsurprisingly the key sales driver with an 8.7 per cent gain compared to a still solid 5.7 per cent in the rest of the province. While flow through of a low Canadian dollar through higher import prices is a contributor to dollar-volume growth, the impact is modest given average national retail price inflation of less than two per cent.

Above average retail growth of more than six per cent is forecast for this year and next. Retail sales growth will be underpinned by solid economic growth of three per cent expansion in the population and employment base and further contribution for housing and tourism.

Strong vehicle sales point to solid consumer demand in B.C.

While sales came off an April record-high by seven per cent, and dragged on retail growth in May, total new vehicle sales in the region covering B.C. and the Territories, remained high at a seasonally-adjusted 17,820 units -- up three per cent from same-month 2015. With a high number of new automobile sales speeding off lots at a near-record pace, it appears consumer demand is doing just fine in B.C.

Through the first five months, unit sales climbed nearly eight per cent with the average price paid

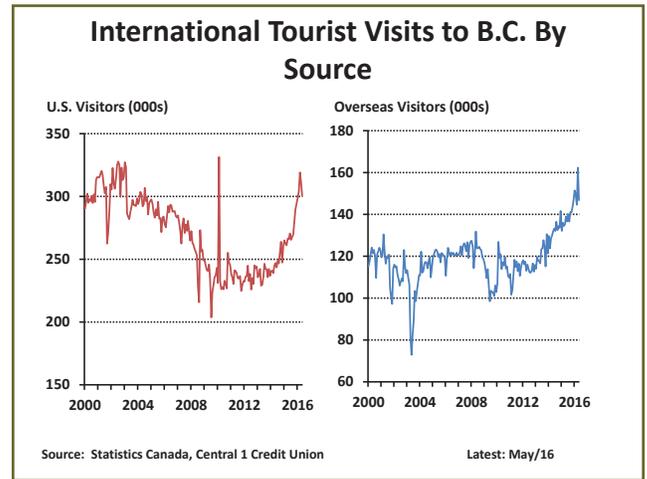
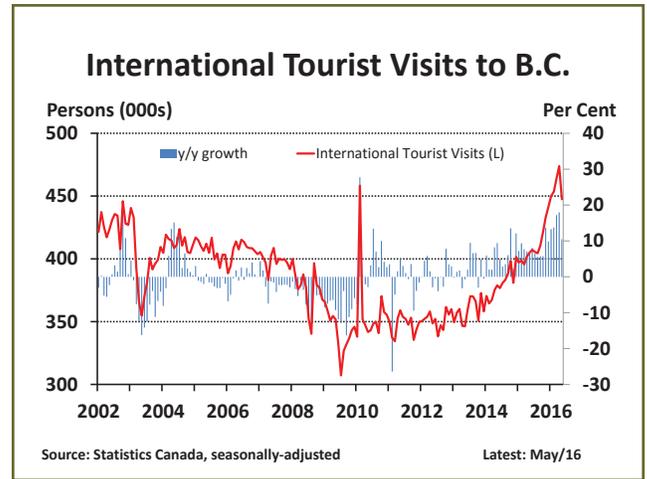


per vehicle up a mild two per cent from a year ago. Year-to-date, sales growth outpaced a five per cent gain in the rest of Canada, although declines in Alberta and Saskatchewan were the key drags. B.C. lagged behind Ontario and a few Atlantic Canada provinces this year, but is coming off nation-leading growth in 2015.

Since B.C. is not a key auto producing province, activity should be viewed mostly as a signal of consumer optimism and demand as transactions rather than as a direct source of economic growth for the economy. On this front, the numbers are quite positive. While growth in the population, which has lifted year-over-year growth in the working age group by three per cent, is a key driver of these gains, per capita sales have also climbed. Sales relative to the working-age population has returned to pre-recession levels, suggesting consumers feel confident in making purchases for big ticket items in light of robust job gains in B.C., particularly Metro Vancouver, and to take advantage of low interest rates.

Tourism remains key contributor to economic growth despite May dip

International tourist inflows to B.C. fell sharply in May, abruptly ending a period of accelerating inflows observed since September. Total international tourist visits to the province fell 5.5 per cent from April to a seasonally-adjusted 447,525 persons with declines from both U.S. and overseas sources. Flows from the U.S. fell 3.5 per cent, marking a second successive decline, while overseas visits fell 9.5 per cent after a 12 per cent surge in April.



While this marks only one month of data, it is possible that April was the high-water mark for monthly international tourist visits as a rebound in the Canadian dollar from 70 cents earlier this year to the 77 cent range since April may have taken some of the wind from the tourism sails, while increased economic uncertainty has not helped. Weakness in the British Pound and Euro since late-June following the Brexit vote could shift more global tourist dollars to the European continent at the expense of B.C. and Canada as a whole.

Nonetheless, B.C.'s tourism sector will remain a strong contributor to economic growth. Despite the decline, international visits were still 10 per cent higher on a year-over-year basis and generally trending higher, with year-to-date inflows up 14 per cent. Most of this gain has reflected a lift from the U.S., which is trending at the highest level since the early 2000s. Year-to-date, U.S. visits were up nearly 16 per cent. Similarly, overseas visits continued to trend higher, with a six per cent year-over-year gain in May and an 11

per cent increase on a year-to-date basis. Overseas flows trend at a record pace. Provided the Canadian dollar remains range-bound, tourism flow should remain elevated over the next two years, owing to a strengthening U.S. economy and rising demand for overseas travel from emerging markets including China and Mexico.

CPI inflation picks up steam in June

Headline consumer price inflation rose in June with year-over-year price growth of two per cent, up from 1.7 per cent in May and the highest growth since January. While uplift in monthly gas prices, and narrowing declines relative to a year ago, accounted for much of the increase, broader inflation also seems to be picking up steam. Seasonally-adjusted price levels rose 0.4 per cent from May, marking a high annualized gain of more than four per cent and pushing the underlying trend above to a 2.5 per cent rate. Excluding energy and food, year-over-year prices in B.C. were up 2.6 per cent in June from 2.3 per cent in May. A combination of import price inflation and increased demand from a strong economy could be contributing to the uplift.

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