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B.C. Economic Briefing

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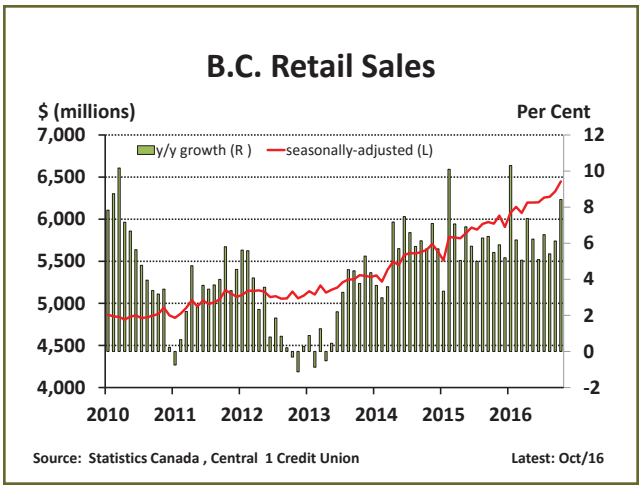
HIGHLIGHTS:

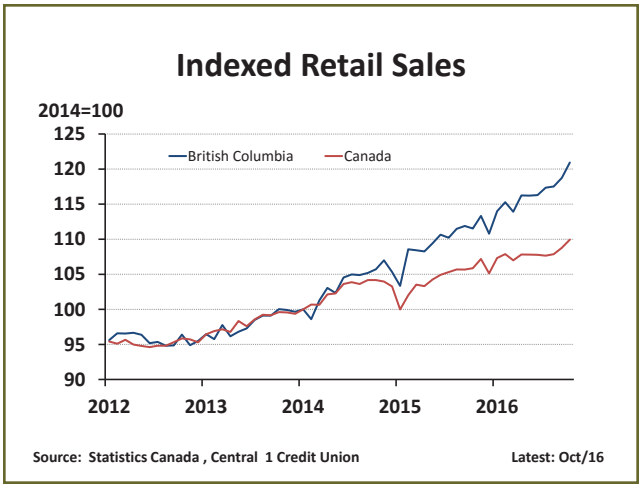
- Retailers posted another hefty gain in sales in October on strong consumer demand and higher gasoline prices.
- Consumer price inflation slowed in November to 1.6 per cent
- Investment in new home construction climbed 31.4 per cent on a year-over-year basis in October
- Payroll employment counts and earnings were flat in October

Strong consumer demand and higher gas prices lift October retail trade

B.C. retailers posted another hefty gain in sales in October driven by a combination of strong consumer demand and higher gasoline prices. Total dollar-volume retail sales reached a seasonally adjusted $6.45 billion, marking a 1.8 per cent increase from September and 8.4 per cent gain from the same month in 2016. B.C.'s gain well outpaced the national performance, which climbed 1.1 per cent from September and 3.8 per cent from a year ago.

Robust sales momentum, which pushed year-to-date sales growth to 6.3 per cent, reflects B.C.'s enviable environment of high employment growth, population expansion, elevated tourism, and strong housing demand in larger urban areas. However, the latter has moderated with a slump in the Vancouver Census Metropolitan Area (CMA) following tremendous early year performance, due in part to more restrictive government policy. Retail sales growth in the Vancouver CMA region has continued to lead year-to-date growth at 7.6 per cent, compared to five per cent elsewhere in B.C.

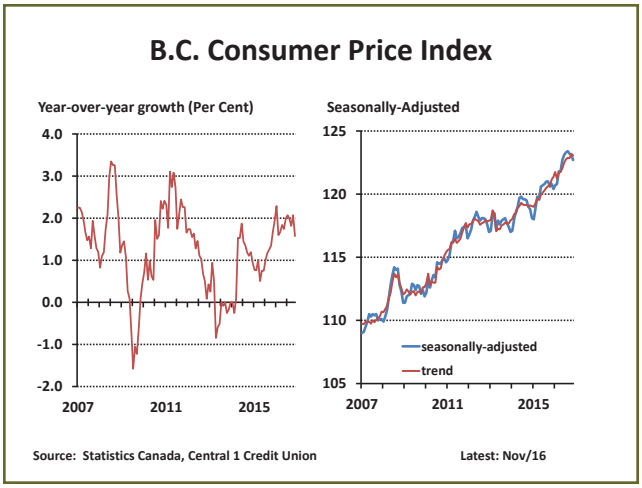


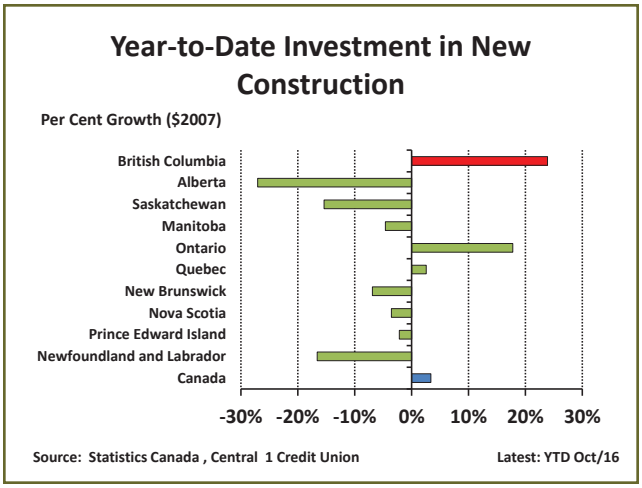


Adjusted for price growth, real provincial retail sales were up more than five per cent.

Most B.C. retail store segments contributed positively to October's pickup. Year-over-year growth accelerated for clothing sales to 9.3 per cent, with gains also prevalent in sporting goods and recreation (8.8 per cent), and home furniture and furnishing (8.4 per cent). Higher prices pushed year-over-year growth for gas stations to 16 per cent, while building material and gardening stores posted a 15 per cent gain from last year. A slip in auto-related sales and electronics and appliances were minor offsets.

While retail sales remain strong, we anticipate slowing momentum will take hold with a softer housing cycle. Recent tightening of mortgage





insurance rules will slow housing-related retail activity, but will be offset in part by the new BC HOME Partnership plan which will help buyers meet down payment requirements.

Inflation eases on gasoline prices in November

Consumer price inflation posted a surprisingly sharp slow down in November, reflecting a drop in prices from October and a base year impact resulting from a lift in prices last November. Year-over-year growth in the consumer price index fell to 1.6 per cent from 2.1 per cent in October.

Decelerated inflationary pressure reflected a pullback in gasoline prices which fell from October, and were down 3.9 per cent from a year ago (compared to a 7.2 per cent year-over-year gain in October). Clothing and footwear (-0.4 per cent), and food prices (-0.9 per cent), were also key drags on price growth.

In contrast, shelter-related price growth accelerated to 2.3 per cent with higher rents and prices associated with homeownership, while home furnishing and equipment prices jumped to a year-over-year gain of nearly six per cent.

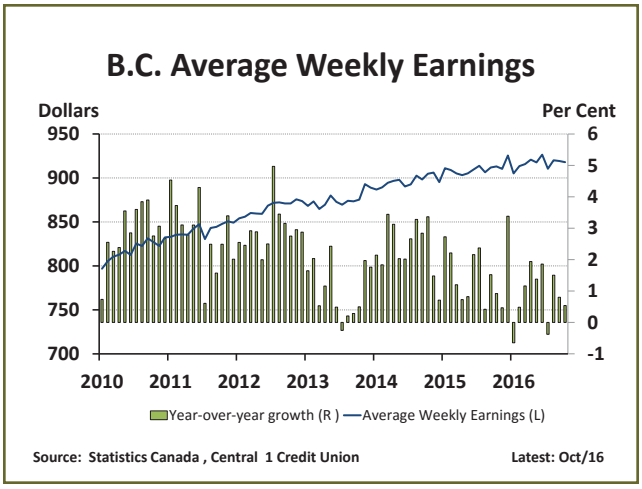
New home construction a substantial growth driver in 2016

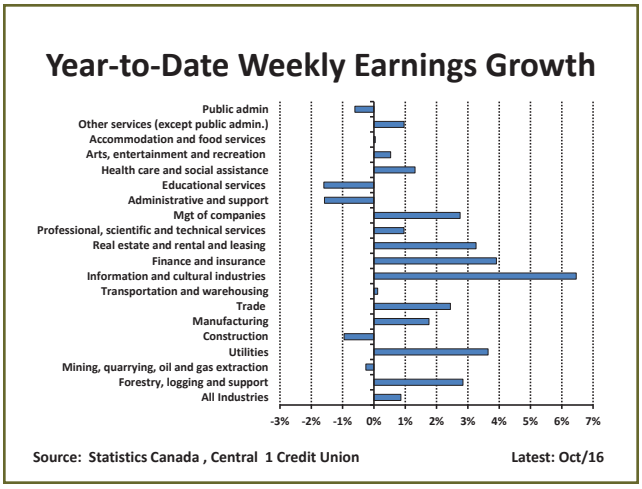
There is a little doubt that housing will end up being a major growth sector for B.C.'s economy once final data rolls in. While we are guided by housing starts, which were up 34 per cent through November in urban areas, contribution to economic growth largely reflects the cycle of building activity of units under construction, of which there are plenty. Economic activity lags housing starts, with late-year activity contributing to following year growth.

According to Statistics Canada, current-dollar investment in new home construction climbed 31.4 per cent on a year-over-year basis in October, compared to a five per cent annual gain. Adjusting for price levels, real investment in B.C. was 25 per cent higher than a year ago in October.

This was not a one-off with year-to-date real investment in new construction surging nearly 24 per cent through the first 10 months. This compared to a 3.4 per cent national gain. New home investment declined in nearly all provinces except for B.C. and Ontario, which had a gain of nearly 18 per cent. Both provinces are among Canada's growth leaders this year. Current-dollar investment in B.C. was close to 30 per cent, pointing to inflation of nearly six per cent.

New home construction is a key component of residential investment, in addition to renovation and costs related to acquisition. We expect overall real residential investment spending to rise about 16 per cent this year making it a primary contributor to economic growth of more than three per cent in the province. Fewer housing starts and some slowdown in the resale market will cut overall residential investment by three per cent in 2017.





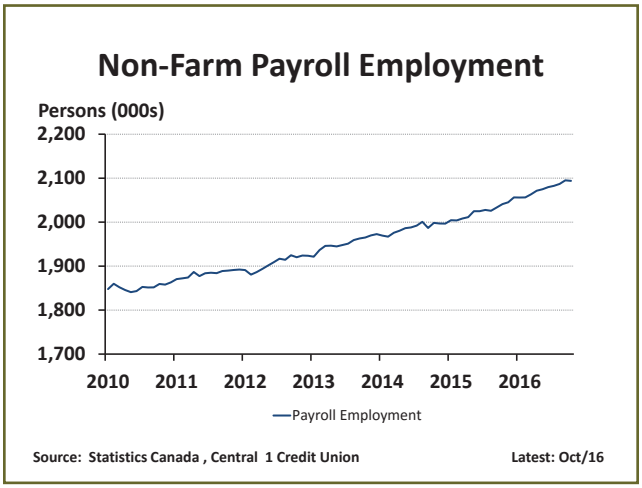
Payroll employment counts and earnings flat in October

Aligning with recent Labour Force Survey employment estimates, the latest non-farm payroll survey of employers for October pointed to moderation in B.C.'s hiring momentum and a continuation of disappointing growth in weekly wage earnings.

Average weekly earnings in B.C. were nearly unchanged from September, nudging lower by 0.1 per cent to about $918, which matched the national change. Year-over-year, B.C.'s half per cent gain in October outpaced a flat national performance and was third among provinces. National growth has been pared by contraction in Alberta.

While comparatively modest, B.C. wages continue to trend range-bound at less than one per cent year-over-year, despite nation-leading employment growth. While showing signs of moderation with a flat monthly performance, payroll employment was up 2.6 per cent year-over-year in October and three per cent year-to-date. Hiring growth at B.C. employers is by far strongest among provinces, and exceeds the national gain of one per cent. Payroll employment growth is well aligned with Labour Force Survey estimates, which showed year-to-date growth of about 3.3 per cent over the same period.

A number of factors contribute to average weekly earnings performance including underlying sectoral wage growth, employment growth composition and hours worked.



At the industry-level, year-to-date average weekly earnings growth was modest in both the goods-producing (0.3 per cent) and services-producing (1.1 per cent) industries. The strongest growth has been observed in the forestry sector (2.8 per cent), trade (2.4 per cent), finance, real estate and leasing at about 3.5 per cent, and information and cultural industries at 6.5 per cent, which includes some high-tech sectors. Meanwhile, these gains have been offset by average weekly declines in administrative jobs and education, and weak growth in a handful of other industries.

Significant job losses were also observed in the higher paying mining and management of companies sectors, with strong growth in lower service sectors like accommodations and food-services, arts and recreation, and educational services. Higher paying sectors like professional service have shown sharper job gains. However, adjusting for a shift in job market composition shows only a mild impact on topline wage growth.

With little explanation from sector composition, other factors that could explain stalled average weekly gains include more part-time work, as reflected in Labour Force Survey results, and a growing supply of workers from other provinces. While jobs are plentiful, higher in-migration from other provinces and more non-B.C. residents from other provinces working in the region could be holding back wages. That said, a tightening labour market will provide the main ingredients for higher wage momentum in 2017.

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