

Canadian Consumers Needed A Boost Before Twin COVID-19 and OPEC+ Shocks

- Retail sales posted a stronger than seasonally usual decline
- Retailers have faced weakness for a long time now
- Total consumption growth has been tepid, focused upon services
- Consumers needed a boost before the twin COVID-19 and OPEC+ shocks

CDN retail sales, m/m % change, SA, January:

Actual: 0.4 / -0.1

Consensus: 0.3 / 0.2

Prior: 0.2 / 0.7 (revised up from 0.0 / 0.5)

Yet more evidence arrived that Canadian retailers were in a weak spot well before the virus hit and that the case for adding stimulus was in place well before the twin COVID-19 and OPEC+ shocks.

Retail sales volumes fell 0.3% m/m in January. Only higher prices paid kept the value of sales in the black (+0.4%).

Sales ex-autos were down in both value (-0.1%) and particularly volume (-0.8%) terms.

Sector breadth was quite poor. Sales fell at furniture/furnishings stores (-0.5% m/m), electronics/appliance stores (-2.8%), building materials and outdoor equipment outlets (-1.9%), food/beverage retailers (-0.7%), clothing/accessories joints (-1.3%), sporting goods/hobbies stores (-2.0%) and general stores (-2.4%).

Sales rose at gas stations due to higher prices and volumes but they are going way down from March onward as gas prices fall and social distancing drives fewer kilometers driven. Sales were flat at health/personal care stores.

January's sales figures are nevertheless obviously stale in the current context. Figures from March onward will likely show strength in categories like food/beverage stores as hoarding kicks in. This is likely to come at the expense of big ticket items.

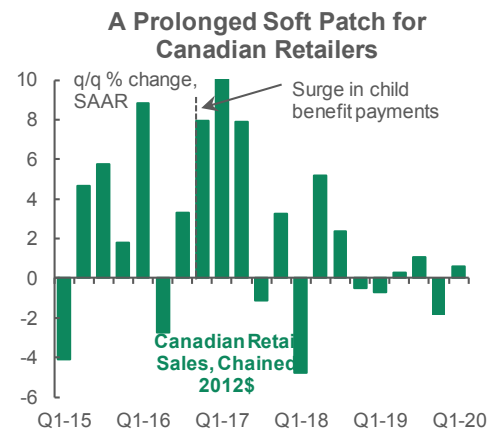
So far, retail sales volumes are tracking a +0.6% q/q gain in seasonally adjusted and annualized terms during Q1 but only because of the 1.8% drop in Q4 and the way the quarter ended with a slight gain in December. It's likely all downside risk from here as Feb/March data rolls in.

Chart 1 shows retail sales volume growth by quarter and how exceptionally weak it has been since way back in 2018Q4 and even further back if only a couple stronger prior quarters are excluded.

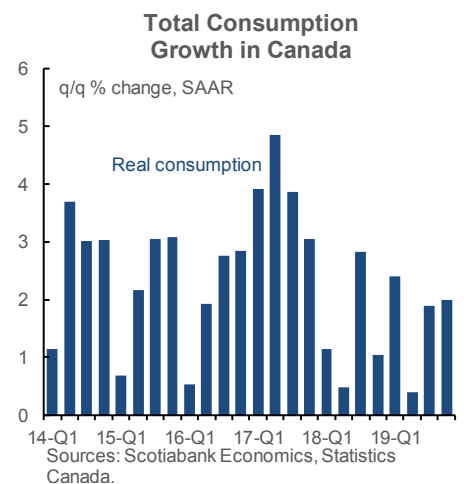
Chart 2 shows inflation-adjusted total consumption growth by quarter up to 2019Q4. Some describe that as strong which I view as misleading. Total

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com



Sources: Scotiabank Economics, Statistics Canada.



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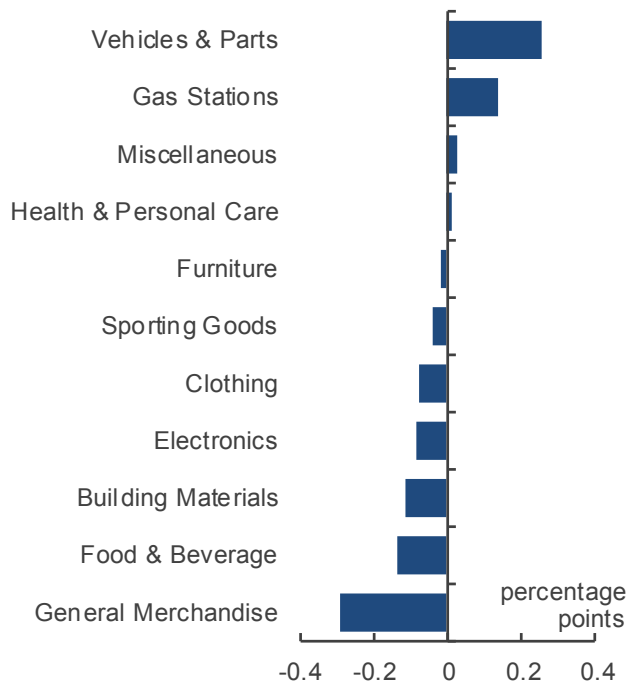
consumption growth was about 2% q/q in seasonally adjusted terms in Q3 and Q4 which is moderate. Further, only services spending buoyed the headline with gains of 2.3% and 3.4% in Q3 and Q4 respectively. Big ticket durables spending was up only 1.4% in Q3 and then slipped 0.2% in Q4. Semi-durables spending was up 1.4% in Q3 and then plummeted by 2.9% in Q4. Nondurables spending grew by only 1.8% and 1.1% in Q3 and Q4 respectively.

GDP is tracking poorly for January given declines in hours worked, retail and manufacturing volumes but a rise in house starts. We will be issuing updated quarterly projections shortly.

Also recall that the argument that consumption is stronger than it appears because retail sales don't capture on-line sales at foreign retailers is bogus. At a minimum, it lacks data to prove it. The only data we have to go by is the postal and couriers import figures that capture all packages coming into the country. Even though this overestimates consumer imports because they also included packages imported by businesses, the volumes are so relatively small that they explain nothing about weak domestic spending. Until policymakers have better data to prove their point, they should stop driving this thesis.

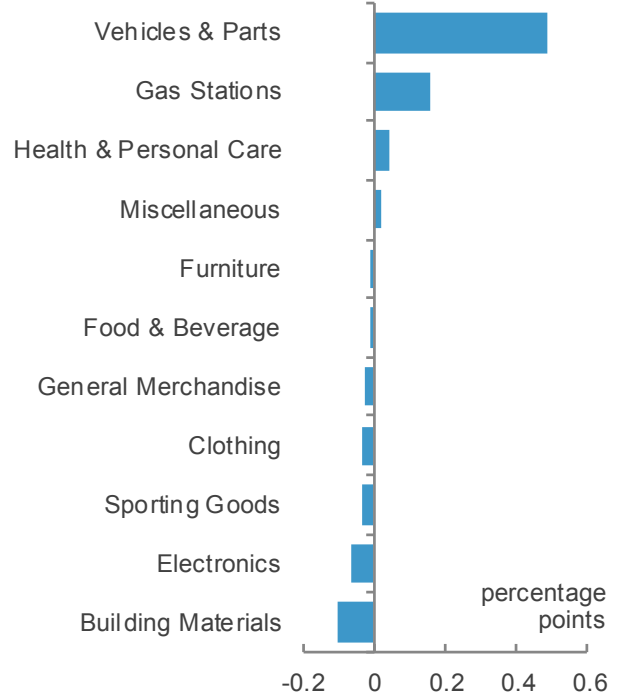
Charts 3–4 show the weighted contributions to sales growth in volume and value terms.

Weighted Retailer Contributions to January Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Weighted Retailer Contributions to January Nominal Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

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