Tracking the Canadian Economy through COVID-19: Insights from customer transactions – October 22, 2020

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Overview

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1. Key Insights from Canadian Customer Transactions

This presentation is part of the weekly series intended to draw insights about the state of the Canadian economy from the flow of Scotiabank’s retail and non-retail transactions data.

Key takeaways from the payments data in this week’s publication:

- Updated to October 15th, automated funds transfers continued to run above last year’s levels, despite some volatility related to the timing of the Thanksgiving long weekend this year:
  - Growth of the inbound automated transactions in the retail sector is gradually coming down from very high levels. In contrast, transactions in the manufacturing sector continue to run below last year’s levels, with no sign of a durable turnaround.
  - Payroll deposits, after showing weakness in early September, started a tentative turnaround that remained in place in the last few weeks, consistent with the renewed strength in jobs created in September according to the Labour Force Survey from Statistics Canada. The decline in rent payments persisted in early October, after the expiration of the commercial rent relief program. The announced successor program, if successful, should help rent to pick up again.

- Growth in consumer transactions, available through October 19th, has slowed this month partly on the back of a rising virus caseload and the re-imposition of restrictions in Ontario and Quebec:
  - Weaker spending in October so far is seen across various merchant types, but restaurants, travel and entertainment are the most affected. Restaurant spending is likely to weaken further as the re-introduced restrictions in Ontario and Quebec prevent in-house dining, while cold weather will likely reduce the number of customers on the patios.
We present data on retail and non-retail transactions, which capture distinct but related aspects of economic activity in Canada.

The data comprises actual observed daily transactions going through debit or credit card payment networks in the retail space, and automated funds transfers (AFTs) in the non-retail space.

- The transactions are anonymized and aggregated to protect the privacy of Scotiabank’s clients.

In the current circumstances, comparing the dollar volumes of transactions in the current year and in 2019 can be indicative of the depth of the decline in economic activity in Q2-2020 and help track growth through the re-opening phase.

- Note that the mapping from the volume of transactions to measures of economic activity (e.g. GDP) is imperfect, and so care must be taken when drawing the implications.

The AFT payments show bill payments to/from companies in Canada.

- Incoming payments can be associated with company revenue, and outgoing payments can be associated with costs.

Debit and credit card payments can be used to measure the evolution of retail spending at various types of establishments.

- The transactions can serve as a measure of economy-wide retail spending, and of the extent to which households are resuming pre-COVID levels of activity.

- Note that the use of electronic payments has increased because of COVID-19, so comparisons to year-ago levels can be misleading. These data are best used to observe directional movements rather than to make specific assessments on the level of activity.
2. COVID-19 and the Canadian Economy: Caveats

There are important caveats to analysis based on the payments data:

• The data is observed at daily frequency and embeds different types of seasonal patterns.
  o For retail payments, the volume and types of payments are different depending on the day of the week and the season.
  o For non-retail payments, both the day of the week and the season are important. In addition, some payments are tied to the calendar date (e.g. rent payments are made on the first day of each month), some payments have a bi-weekly schedule, etc.
  o To smooth out most of the day-to-day seasonality we use a 14-day moving average of the dollar volume of transactions, taking a y/y% change to remove any remaining seasonal patterns related to the calendar date.

• In addition to seasonality, there is normal payment volatility related to the random nature of the transactions process and the impact of regional and economy-wide events (weather, labour strikes, etc.).
  o The volatility of this nature may or may not be related to economic activity as measured by GDP and so, as mentioned above, care must be taken in drawing inference.

• For business transactions, which are inherently more lumpy compared to retail spending, data towards the end of the sample can be revised as some AFT payments are recorded with a lag. As a result we exclude the last few days of data of business transactions only.
3. Business Transactions Data: Incoming Payments Stabilized Above Last Year’s Levels

- Updated to October 15th, automated funds transfers continued to run higher than last year’s levels, despite some volatility related to the timing of the Thanksgiving long weekend.

- Growth of the inbound automated transactions in the retail sector is gradually coming down from very high levels. Transactions in the manufacturing sector are running below last year’s levels, with no sign of a durable turnaround (Charts 2-6).

- Automated Funds Transfers (AFT) are used for:
  - rent and mortgage payments;
  - payroll deposits; and
  - other bills.

Sources: Scotiabank Economics, Data Science and Analytics.
3. Business Transactions Data: Growth in Retail Payments Trending Lower

Chart 2

14-day ma of daily dollar volume of transactions, incoming AFT payments, y/y %

All industries

Wholesale trade, 5.5% of GDP

Sources: Scotiabank Economics, Data Science and Analytics.

Chart 3

14-day ma of daily dollar volume of transactions, incoming AFT payments, y/y %

Retail trade, 5.5% of GDP

All industries

Sources: Scotiabank Economics, Data Science and Analytics.
3. Business Transactions Data: Manufacturing/Transportation Below 2019 Levels

Chart 4
14-day ma of daily dollar volume of transactions, incoming AFT payments, y/y %
Sources: Scotiabank Economics, Data Science and Analytics.

Chart 5
14-day ma of daily dollar volume of transactions, incoming AFT payments, y/y %
Sources: Scotiabank Economics, Data Science and Analytics.

Chart 6
14-day ma of daily dollar volume of transactions, incoming AFT payments, y/y %
Sources: Scotiabank Economics, Data Science and Analytics.
3. Business Transactions Data: Bill Payments Rebound since mid-September

- Y/Y growth in outgoing payments has mirrored incoming transactions, running higher than last year’s levels on stronger general bill and mortgage payments (Chart 7).

- Payroll deposits, after showing weakness in early September, started a tentative turnaround that remained in place in the last few weeks, consistent with the renewed strength in jobs created in September according to the Labour Force Survey from Statistics Canada.

- The decline in rent payments persisted in early October, after the expiration of the commercial rent relief program. The announced successor program, if successful, should help rent to pick up again (Charts 8 and 9).
3. Business Transactions Data: Pickup in Payrolls, Fall-off in Rent

Chart 8
Rent Payments
- Physical distancing measures began to be implemented in mid-March
- dollar volume, cumulative daily total for each month, y/y %

Sources: Scotiabank Economics, Data Science and Analytics.

Chart 9
Payroll Deposits
- Physical distancing measures began to be implemented in mid-March
- 28-day ma of daily dollar volume of transactions, y/y %

Sources: Scotiabank Economics, Data Science and Analytics.
4. Retail Transactions Data: Card Spending Growth Stabilizing at Lower Levels

- Growth in consumer transactions, available through October 19th, has slowed this month, partly on the back of rising virus cases and the re-imposition of limited restrictions in Ontario and Quebec (Chart 10):
  - Despite the volatility early in the month, the overall volume of transactions recorded in September showed healthy y/y growth, but growth in October has slipped lower so far.

**Chart 10**

*Credit and Debit Card Transactions*

14-day ma of daily dollar volume of transactions, contribution to y/y %

Sources: Scotiabank Economics, Customer Insights, Data & Analytics.
4. Retail Transactions Data: Use of Bank Machines Down

- The volume of debit card transactions through automatic banking machines (ABMs) continues to run significantly below the pre-pandemic levels (Chart 11).

- Public health-related restrictions on store operations, consumers spending more time at home, as well as a move away from cash by store owners, could explain lower levels of ABM usage.
4. Retail Transactions Data: Ontario and Quebec Show More Pronounced Slowdown

• In line with aggregate data shown in chart 10, province-level payments show a decline in y/y growth recently (Chart 12-15).

• Growth in Ontario and Quebec shows a faster decline in y/y growth relative to September due to the worsening epidemiological situation and the re-imposition of restrictions on dining and entertainment.
The slowdown in y/y growth in spending since mid-September occurred on the back of weaker spending in most categories that were hit hard by the pandemic (Chart 16):
- Spending on meals at restaurants, on travel and entertainment has been the most affected in October.

Sources: Scotiabank Economics, Customer Insights, Data & Analytics.
4. Retail Transactions Data: Travel, Restaurants and Entertainment Slow Further

- Most categories that were hit hardest during the pandemic show y/y growth weakening in October (Chart 17):
  - Demand for products and services aimed at home or health improvement slowed less compared to other categories.
  - In contrast, y/y growth in travel-related spending, as well as entertainment, clothing and restaurant purchases slowed more significantly.

Chart 17

14-day ma of daily dollar volume of transactions, y/y %

Sources: Scotiabank Economics, Customer Insights, Data & Analytics.
4. Retail Transactions Data: Electronic Spending Growth Stable

- Among the categories that experienced stronger spending through the pandemic most show steady growth in September and early October (Chart 18):
  - A large spike in purchases at computer network and information services merchants, which include large online retailers, coincided with Amazon’s Prime Days held on October 13-14.
5. Other High-Frequency Indicators Of Activity

Charts 19-32 Google Searches, Various Keywords, Dining and Transportation Data

[Charts and graphs showing various indicators of activity including:
- Google Searches for "Lockdown"
- Google Searches for "Reopening"
- Google Searches for "Wage Subsidy"
- Google Searches for "Commercial Rent"
- Google Searches for "Employment Insurance"
- Google Searches for "CERB"
- OpenTable Reservations in Canada
- Google Mobility Trends in Canada
- Method of Transportation in Ottawa
- Method of Transportation in Halifax
- Method of Transportation in Halifax
- Method of Transportation in Montreal
- Method of Transportation in Toronto
- Method of Transportation in Calgary
- Method of Transportation in Vancouver]
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We analyzed anonymized automated funds transfers (ATFs) by businesses through the Automated Clearing Settlement System where Scotiabank is one of the parties. The analysis was based on 22 Transaction Codes (see Payments Canada for more information on transaction types) across 20 industries. We also analyzed anonymized retail transactions (debit and credit card payments) through Scotiabank, with 18 broad spending categories based on 264 merchant types. Finally, we used aggregated totals for deposits related to the Canada Emergency Response Benefit made into customer accounts in chart 12, indexing the series to 100 at the maximum weekly total.

For each type of transaction (retail and ATF), we calculated a 14-day moving average daily in 2020 through early May and compared to a corresponding average for the same month and day in 2019.