



Tracking the Canadian Economy through COVID-19: Insights from customer transactions – December 3, 2020

Nikita Perevalov* (Scotiabank Economics)

Roland Merbis, Artur Motruk (Customer Insights & Analytics)

* Director of Economic Forecasting, 437.775.5137, nikita.perevalov@scotiabank.com

1. Key Insights from Customer Transactions
2. COVID-19, the Canadian Economy and Scotiabank's Transactions Data
3. Retail Transactions Data Details
4. Other High-Frequency Indicators of Activity

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:

- Y/Y growth in consumer transactions (available through November 29th), having slowed dramatically in the first half of November, returned to positive territory over the past two weeks, despite the imposition of new COVID-related restrictions in November. The recovery in growth was explained by stronger spending at several merchant categories:
 - Clothing showed a significant rise in y/y growth, perhaps as the arrival of winter weather prompted consumers to winter-proof their wardrobes. While this type of spending should normally be captured by seasonal factors, it is likely that the usual seasonal spending patterns for items purchased in physical stores have been upended this year.
 - Among other categories, rising y/y growth in the last few weeks was registered in spending on home renovation-related items, automotive products and computer software. Growth in spending on groceries picked up slightly in the lead-up to the imposition of new restrictions across provinces.
 - Most provinces recorded a rise in spending growth recently, but Manitoba, where the strictest lockdown measures were imposed, and to a lesser extent Ontario and Quebec, underperformed the overall growth seen across the Bank's payments.
 - Going forward, the trend in spending bears a careful watch, as the renewed restrictions across provinces will have their impact during the busiest shopping season.

The business transactions data has been delayed this week. The coverage of business transactions should resume in the next week's publication.

2. COVID-19 and the Canadian Economy: Scotiabank Transactions Data

- We present the data on retail transactions, which captures consumer spending activity in Canada.
- The data comprises actual observed daily transactions going through debit or credit card payment networks in the 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 in Q3-2020 and beyond.
 - 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.
- 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

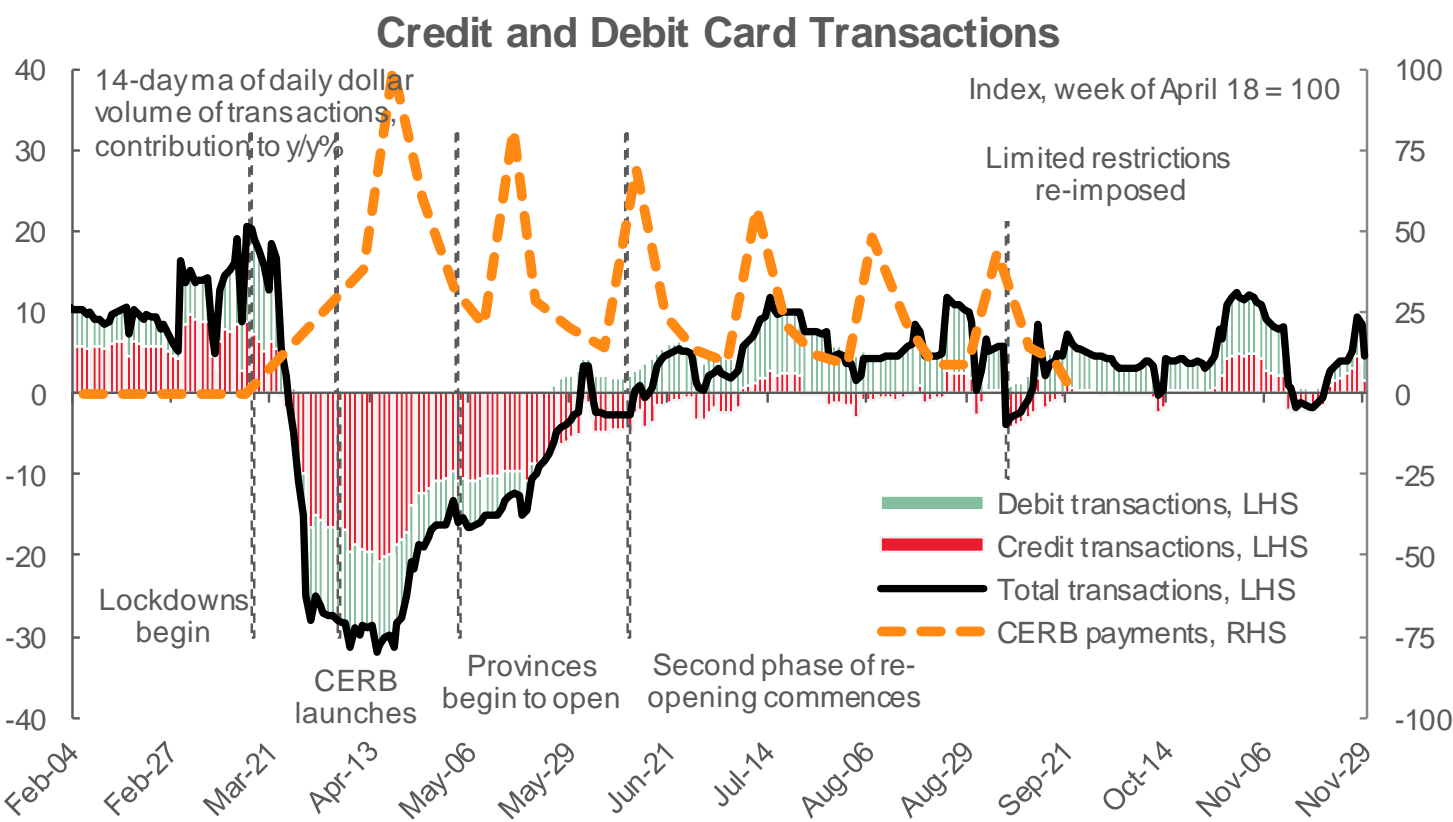
There are important caveats to analysis based on the payments data:

- The data is observed at daily frequency and embeds different types of seasonal patterns.
 - For retail payments, the volume and types of payments are different depending on the day of the week and the season.
 - 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.).
 - 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.

3. Retail Transactions Data: Growth Recovered In the Last Two Weeks

- Y/Y growth in consumer transactions (available through November 29th), having slowed dramatically in the first half of November, returned to positive territory over the past two weeks, despite the imposition of new COVID-related restrictions in November (Chart 1):
 - Both debit and credit transactions have contributed to the overall growth improvement.
 - Some volatility is seen in the data at the end of November, as Black Friday occurred on November 27th this year, compared to November 29th in 2019.

Chart 1

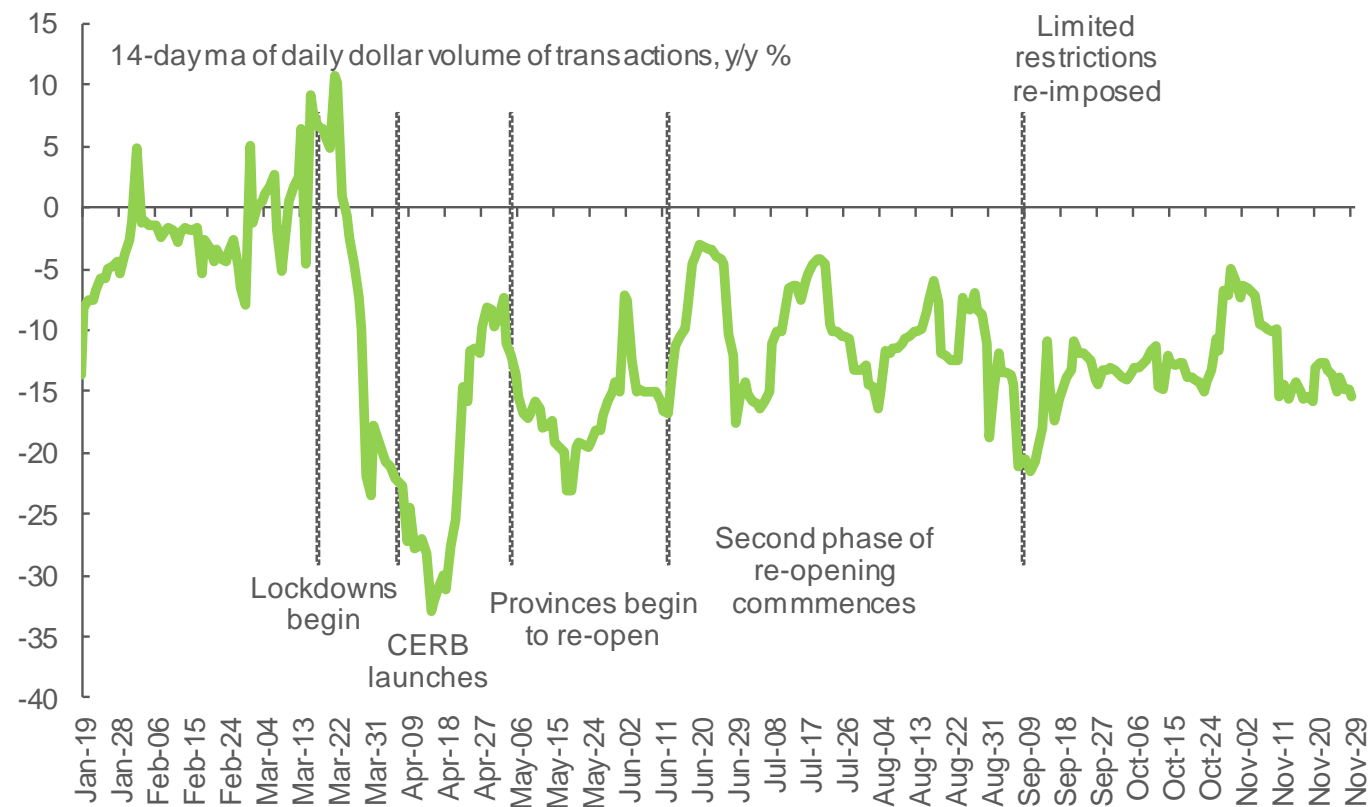


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

3. Retail Transactions Data: ABM Failed to Catch Up

- The volume of debit card transactions through automatic banking machines (ABMs) remained stable relative to the levels of 2019, despite an improvement in card spending (Chart 2).
- 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.

Chart 2

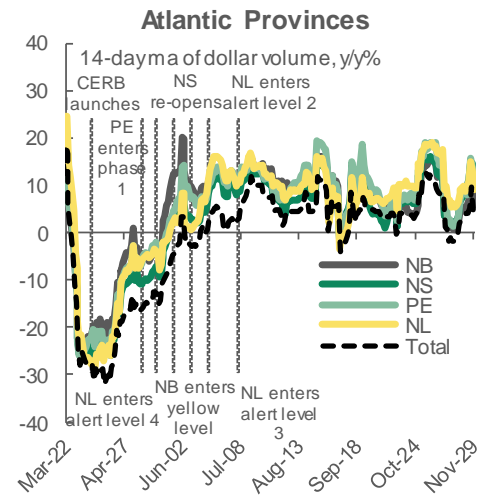


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

3. Retail Transactions Data: Consistent Pattern Across Provinces

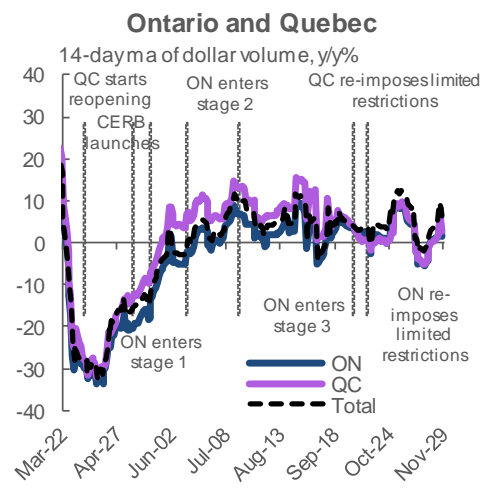
- Most provinces recorded a rise in spending growth recently, but Manitoba, where the strictest lockdown measures were imposed, and to a lesser extent Ontario and Quebec, underperformed the overall growth seen across the Bank’s payments (Charts 3-6).
- Going forward, the trend in spending bears a careful watch, as the renewed restrictions across provinces will have their impact during the busiest shopping season.

Chart 3



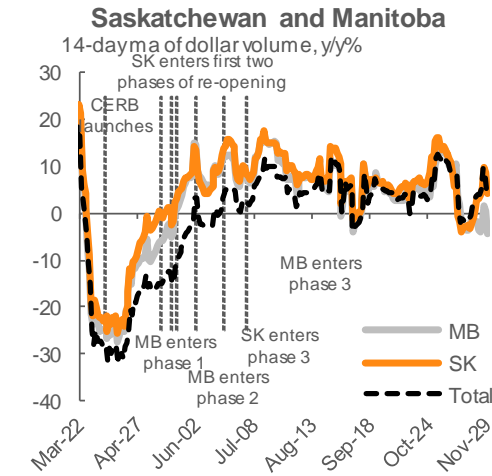
Sources: Scotiabank Economics, Data Analytics.

Chart 4



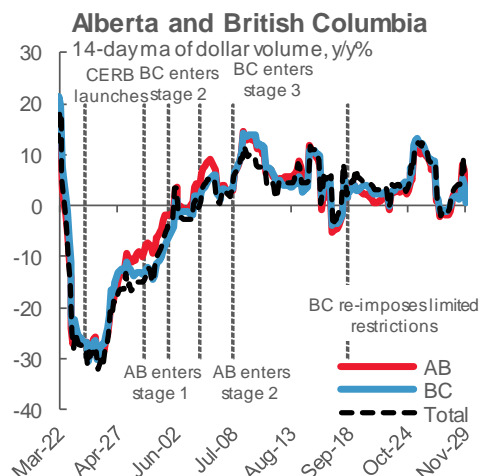
Sources: Scotiabank Economics, Data Analytics.

Chart 5



Sources: Scotiabank Economics, Data Analytics.

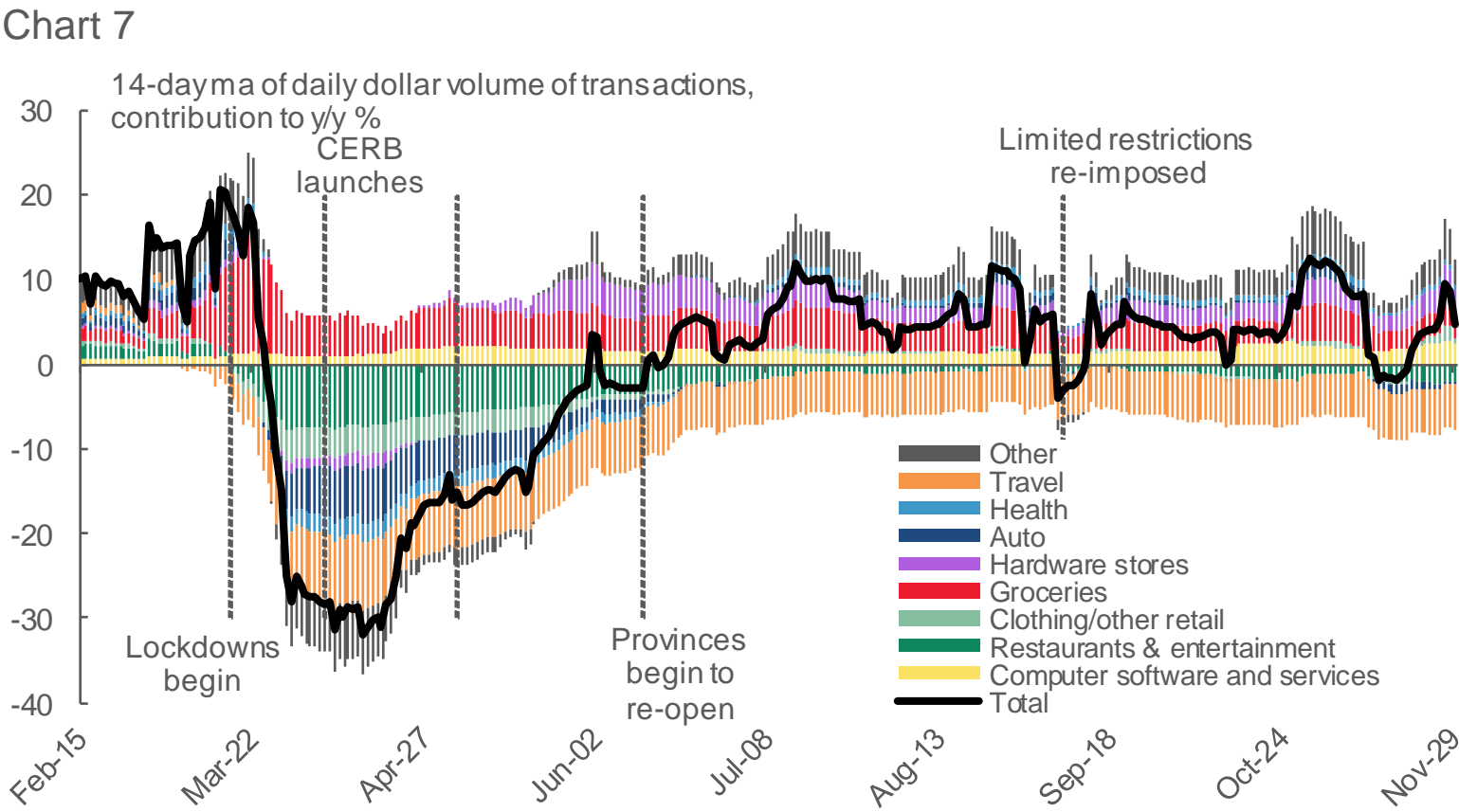
Chart 6



Sources: Scotiabank Economics, Data Analytics.

3. Retail Transactions Data: Rising Growth is Relatively Concentrated By Sector

- The recovering growth over the past few weeks was explained by stronger spending at several merchant categories (Chart 7):
 - The large drag from travel-related spending continues to suppress overall growth, with restaurants suffering as the colder weather and new restrictions curtail spending.

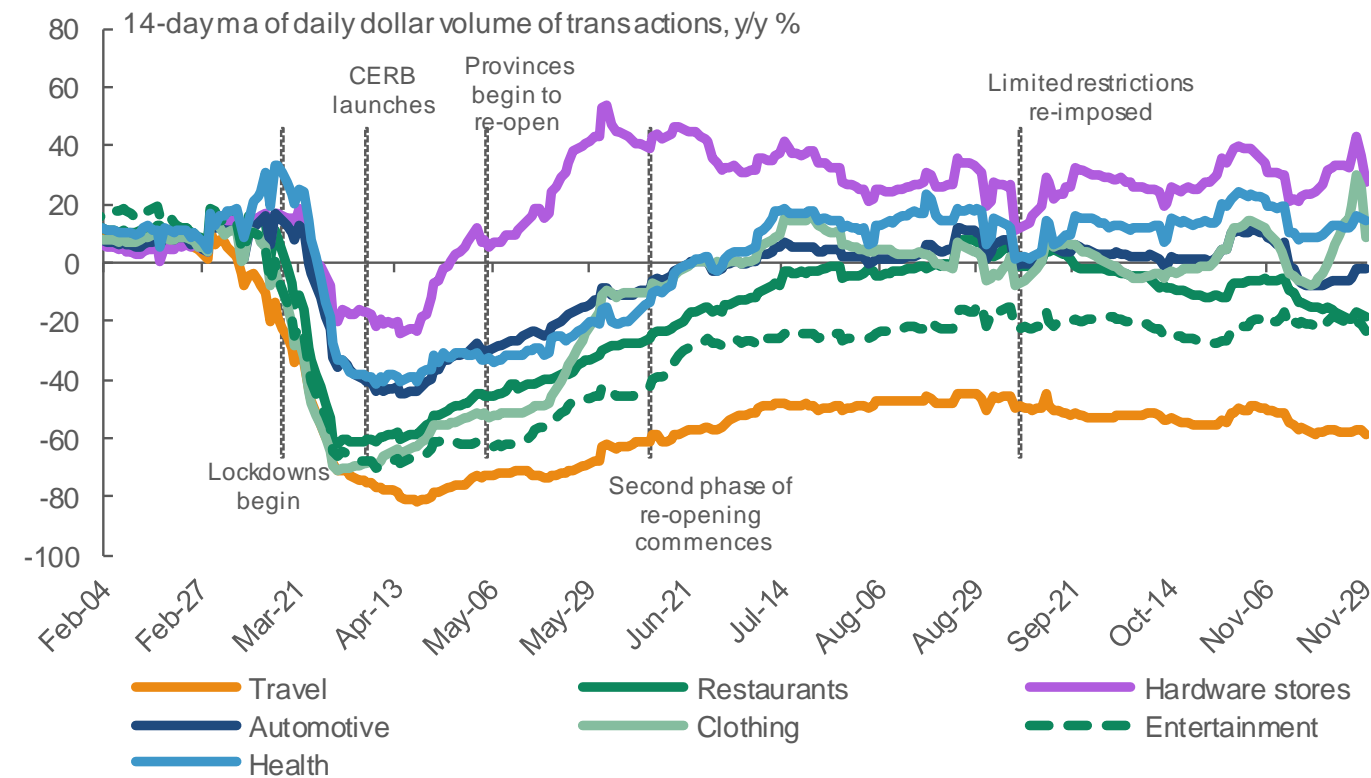


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

3. Retail Transactions Data: Clothing, Home Improvement Spending Pick Up

- Among the merchants that were hit hard by the pandemic in the spring, only a few show rising growth recently (Chart 8).
 - Clothing registered a significant rise in y/y growth, perhaps due to colder weather prompting consumers to winter-proof their wardrobes. It is likely that the usual seasonal spending patterns for items purchased in physical stores have been upended this year.
 - Among other categories, rising y/y growth in the last few weeks was seen in home renovation-related items, as well as automotive products.

Chart 8

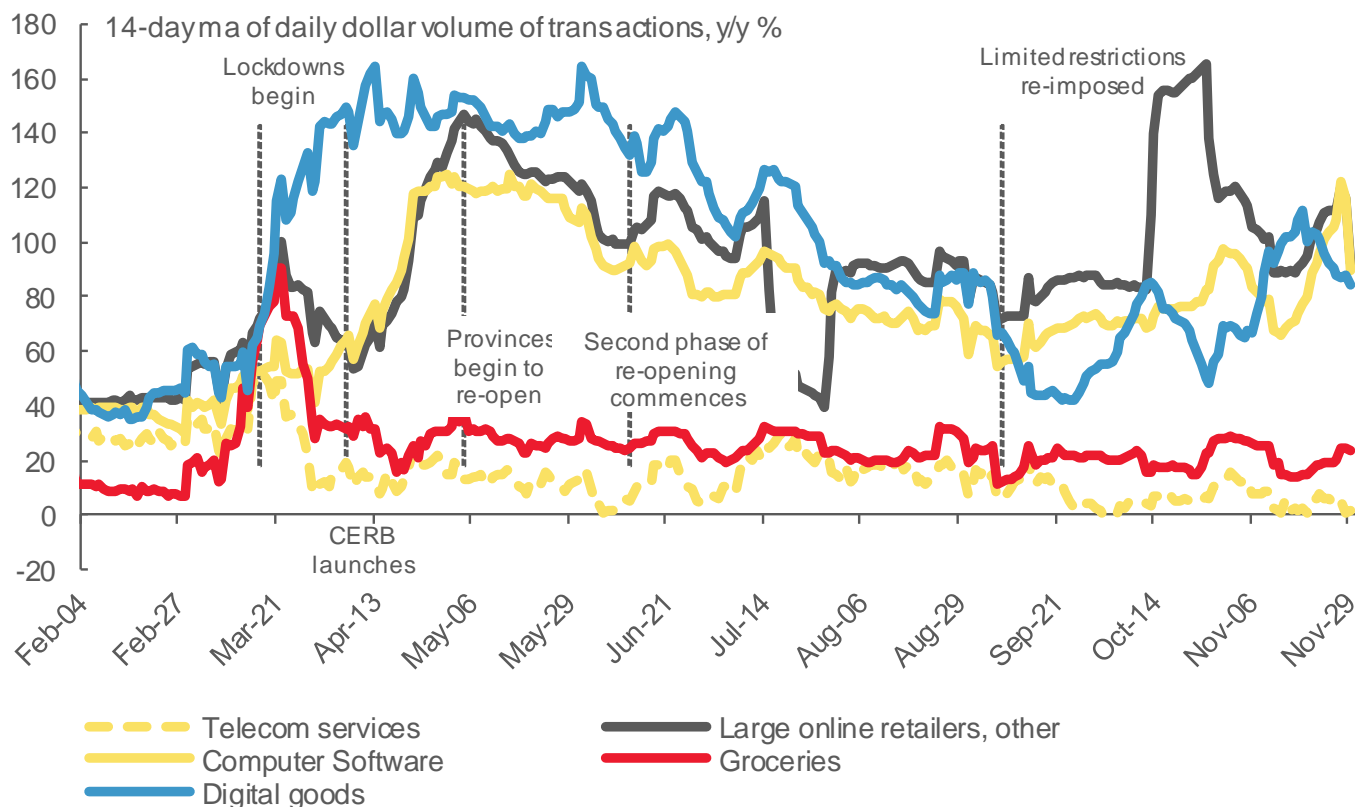


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

3. Retail Transactions Data: Higher Spending at Software, Large Online Retailers

- Among purchases of products related to working or entertaining at home, computer software spending as well as purchases made through large online retailers picked up substantially in the last few weeks (Chart 9).
- In addition, y/y growth in purchases at grocery stores increased slightly in the lead-up to the imposition of new restrictions across provinces. However, the rise was small compared to the sharp boost seen in March and April.

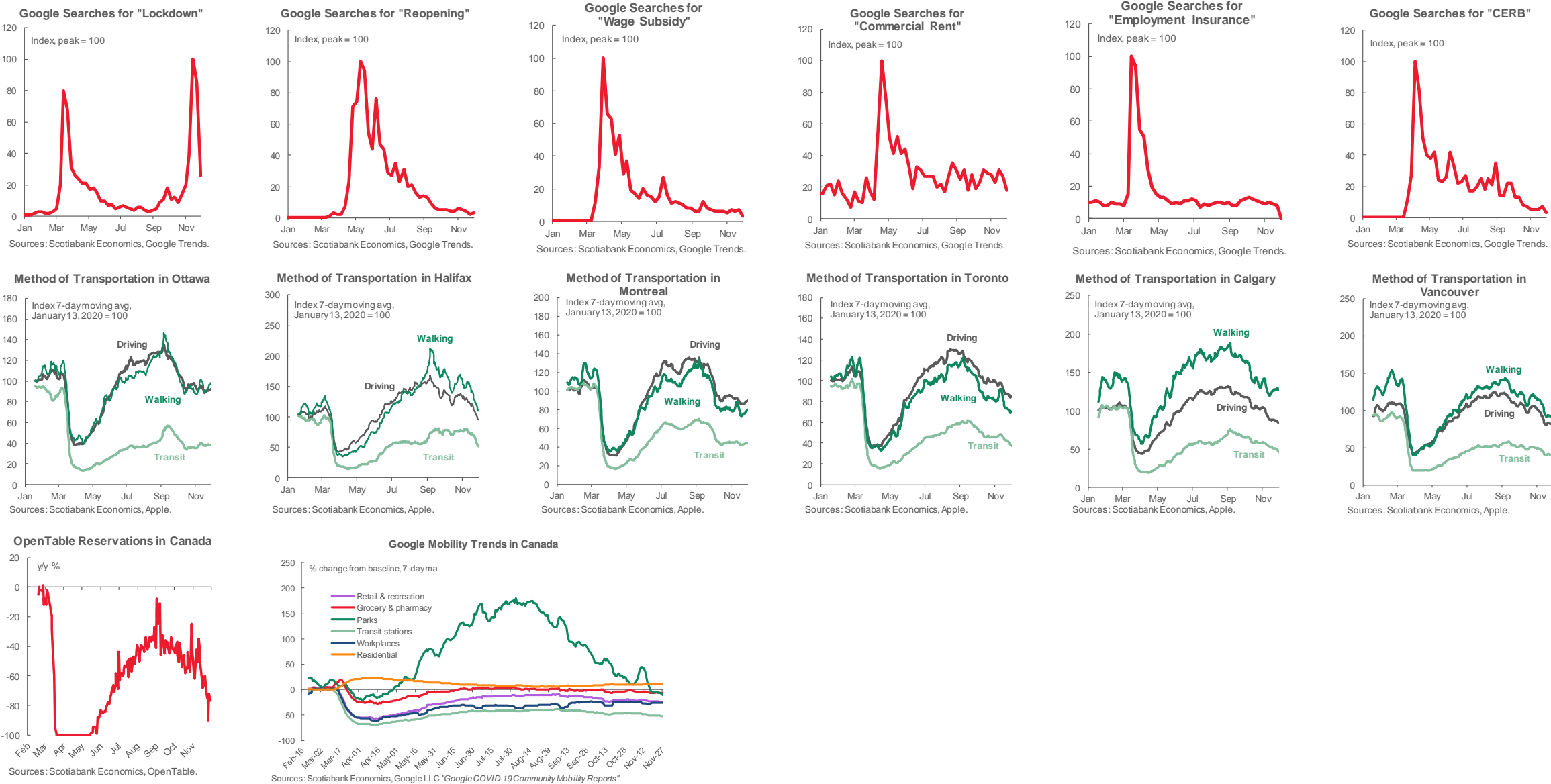
Chart 9



Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

4. Other High-Frequency Indicators Of Activity

Charts 10-23 Google Searches, Various Keywords, Dining and Transportation Data



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed in this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations. Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

TM Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including; Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities. Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.

Scotiabank recognizes the importance of personal and business information and we never take for granted the trust that you have placed in us to protect that information. We are committed to the ethical use of all our data. This report is based on anonymized and aggregated information and cannot be linked to any identifiable individual or business. For additional details on how we protect personal information, see <https://www.scotiabank.com/privacy>.

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.