



Tracking the Canadian Economy through COVID-19: Insights from customer transactions – December 18, 2020

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1. Key Insights from Customer Transactions
2. COVID-19, the Canadian Economy and Scotiabank's Transactions Data
3. Business Transactions Data Details
4. Retail Transactions Data Details
5. 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:

- Updated to December 11th, y/y growth in business sector transactions has remained robust in early December, showing tentative signs of slowing more recently:
 - Growth in the wholesale and retail payment flow slowed somewhat in mid-December, while manufacturing firms continue to show transaction flow below last year's levels.
 - Growth in outgoing payments has remained stable in December. Both rent payments and payroll deposits are currently above the levels of 2019, despite the ongoing impact of restrictions on business activity.
- Y/Y growth in consumer transactions (available through December 12th) has slowed in the first week of December, before picking up again more recently. The continued resilience of spending in December suggests that the widespread restrictions implemented across provinces may not have as big an impact as expected in Q4-2020.
 - The pattern of growth slowing in the first week of December before picking up again can be seen across provinces outside of the Atlantic region. The latter shows growth moderating from a relatively high level. In contrast, spending in Manitoba, having dipped significantly below the level of 2019 in late November on widespread restrictions, started to improve in mid-December.
 - In terms of merchant types, growth in spending on renovations and clothing, as well as digital purchases (videogames, etc.) explained most of the rise in early December.

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

- 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

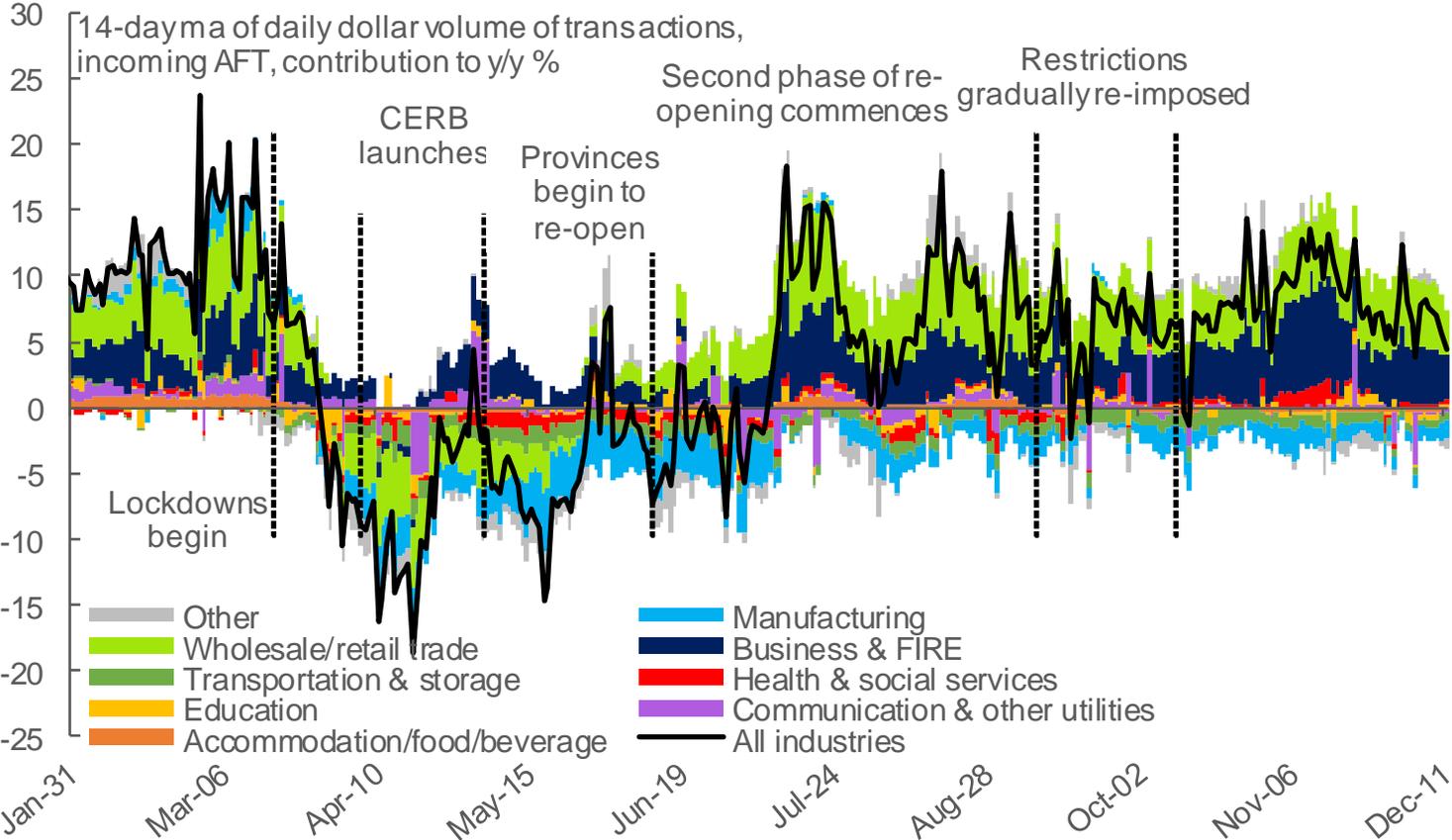
There are important caveats to analysis based on the payments data:

- The data is observed at daily frequency and embeds different types of seasonal patterns.
 - For retail payments, the volume and types of payments are different depending on the day of the week and the season.
 - 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.
 - 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.
- 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: Payments Remained Strong in Early December

- Updated to December 11th, y/y growth in business sector transactions has remained robust in early December, showing tentative signs of slowing more recently (Chart 1):
 - Growth in the wholesale and retail payment flow slowed somewhat in mid-December, while manufacturing firms continue to show transaction flow below last year's levels (Charts 2-6).
- Automated Funds Transfers (AFT) are used for:
 - rent and mortgage payments;
 - payroll deposits; and
 - other bills.

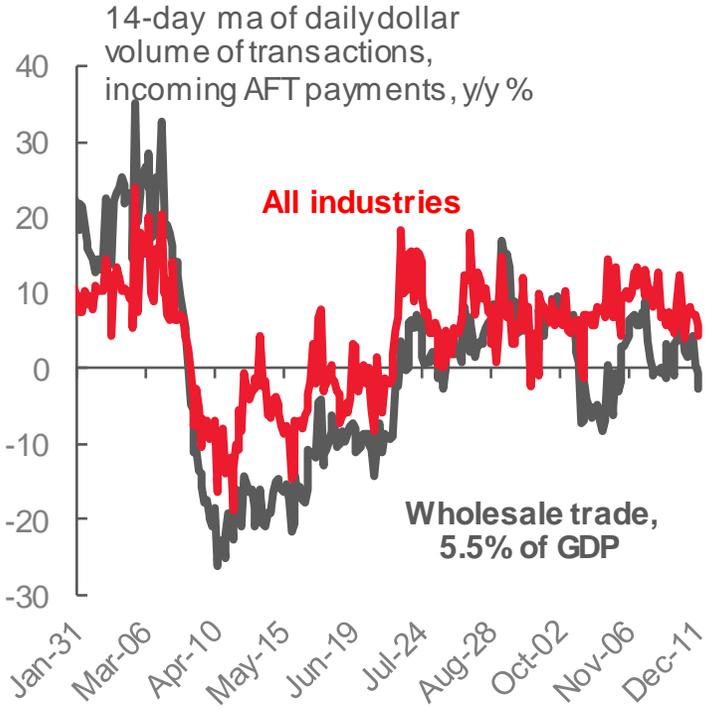
Chart 1



Sources: Scotiabank Economics, Data Science and Analytics.

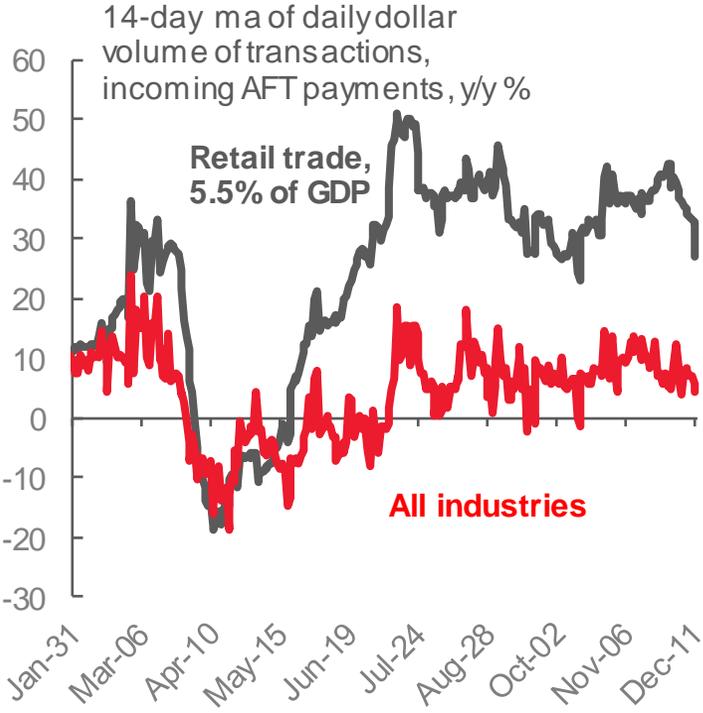
3. Business Transactions Data: Retail and Wholesale Payments Ease Recently

Chart 2



Sources: Scotiabank Economics, Data Science and Analytics.

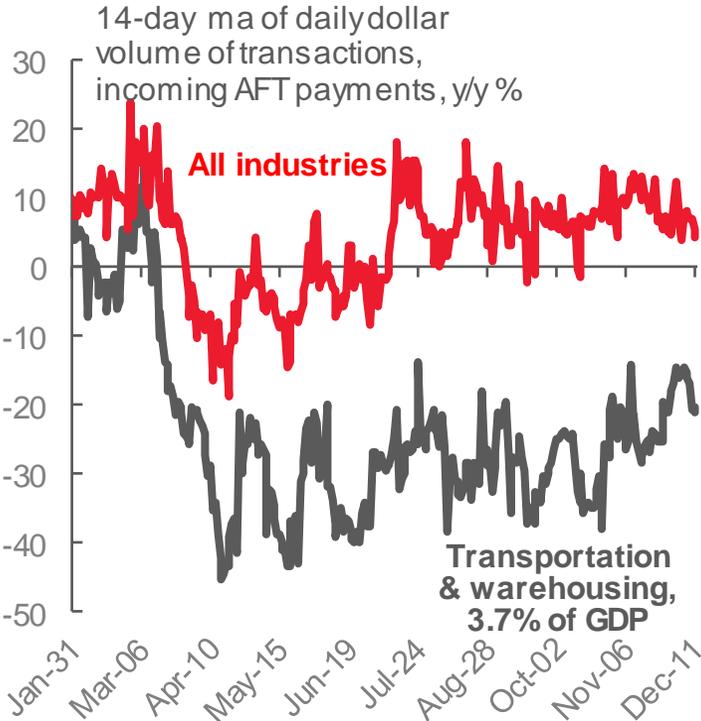
Chart 3



Sources: Scotiabank Economics, Data Science and Analytics.

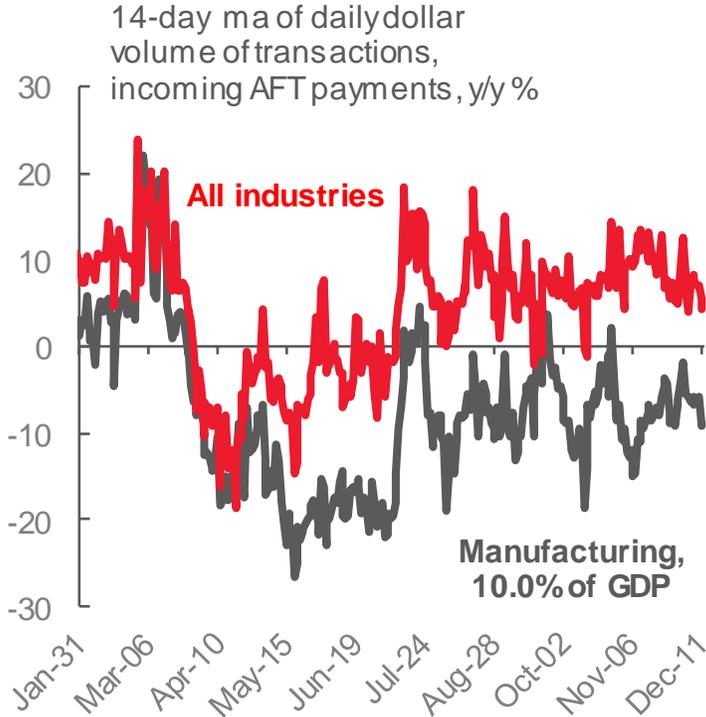
3. Business Transactions Data: Manufacturing Payments Finishing the Year Below 2019

Chart 4



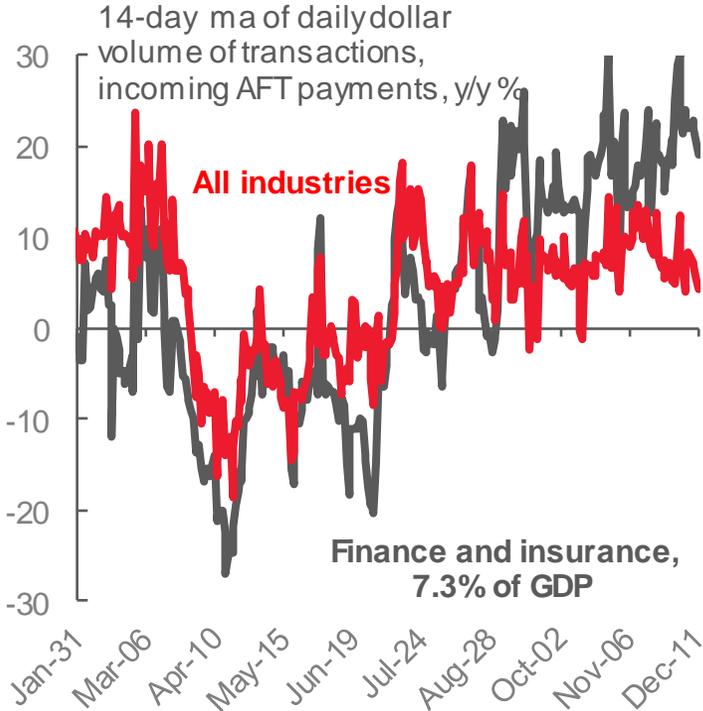
Sources: Scotiabank Economics, Data Science and Analytics.

Chart 5



Sources: Scotiabank Economics, Data Science and Analytics.

Chart 6

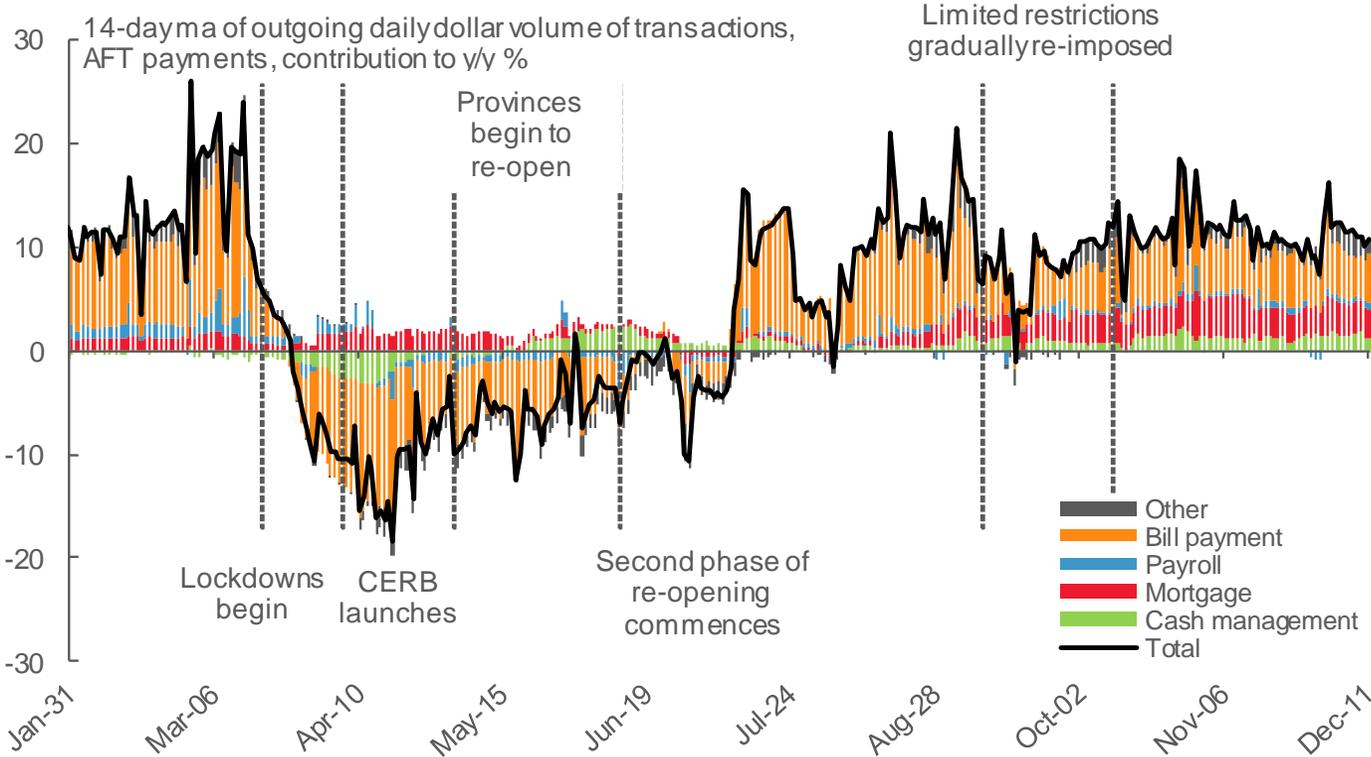


Sources: Scotiabank Economics, Data Science and Analytics.

3. Business Transactions Data: Growth in Bill Payments Stable Over the Past Month

- Growth in outgoing payments has remained stable in December, with no sign of weakening despite the ongoing impact of restrictions on business activity (Chart 7).
- Both rent payments and payroll deposits are currently above the levels of 2019 (Charts 8 and 9). The rising growth in payroll deposits is consistent with the continued recovery in the Canadian labour market, where between April and November 2.4 million jobs were recovered.

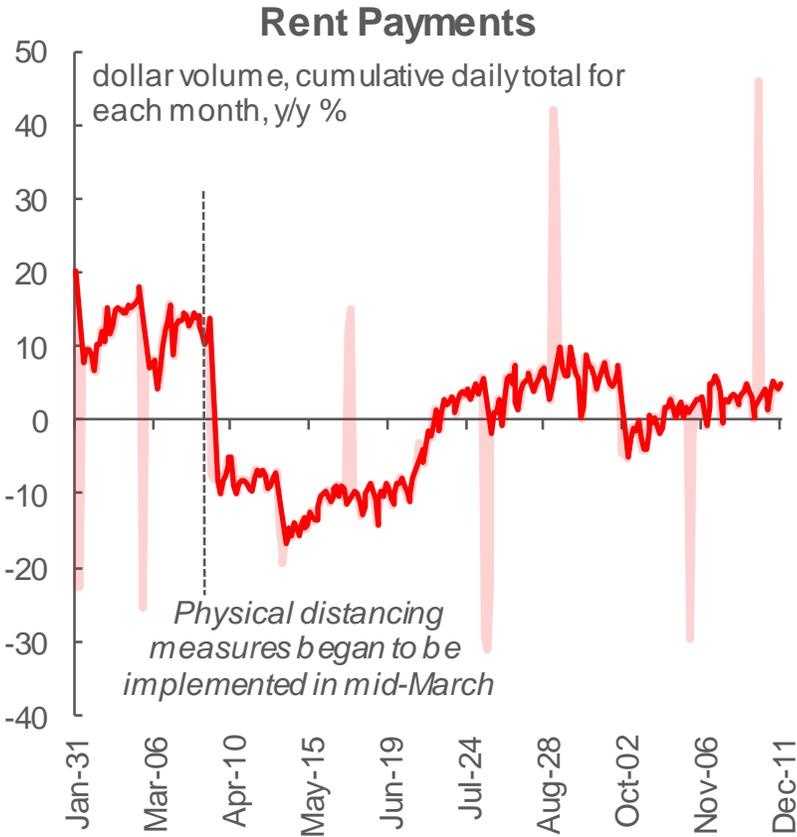
Chart 7



Sources: Scotiabank Economics, Data Science and Analytics.

3. Business Transactions Data: Payroll/Rent Payments Above 2019 Levels

Chart 8



Sources: Scotiabank Economics, Data Science and Analytics.

Chart 9

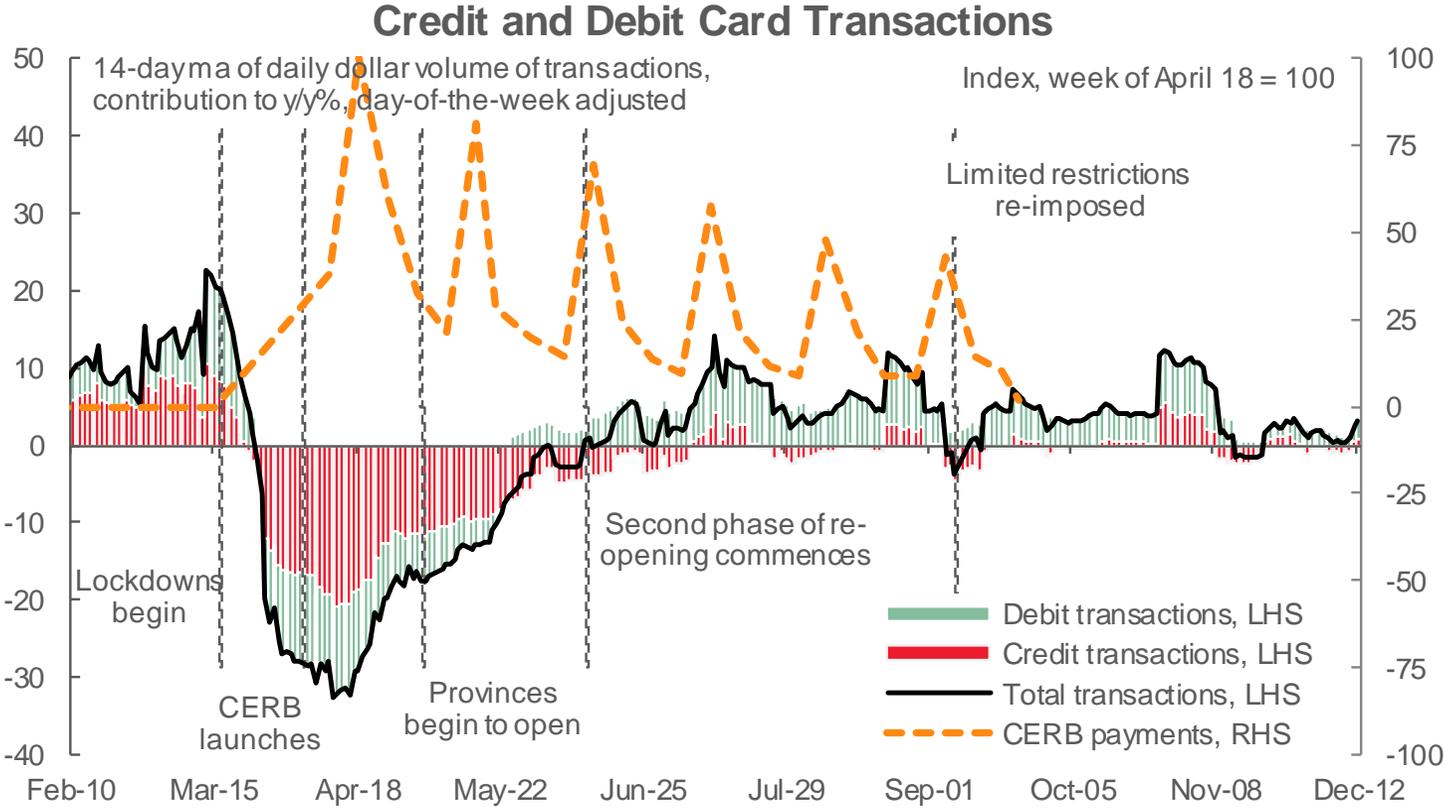


Sources: Scotiabank Economics, Data Science and Analytics.

4. Retail Transactions Data: Spending Growth Picks Up Recently

- Y/Y growth in consumer transactions (available through December 12th) has slowed in the first week of December, before picking up more recently (Chart 10). The continued resilience of spending in December suggests that the widespread restrictions implemented across provinces may not have as big an impact as expected in Q4-2020.
 - Just as the holiday shopping season began in late November, spending picked up slightly above last year's levels, once the timing is aligned for Black Friday and Cyber Monday in 2019-2020.

Chart 10

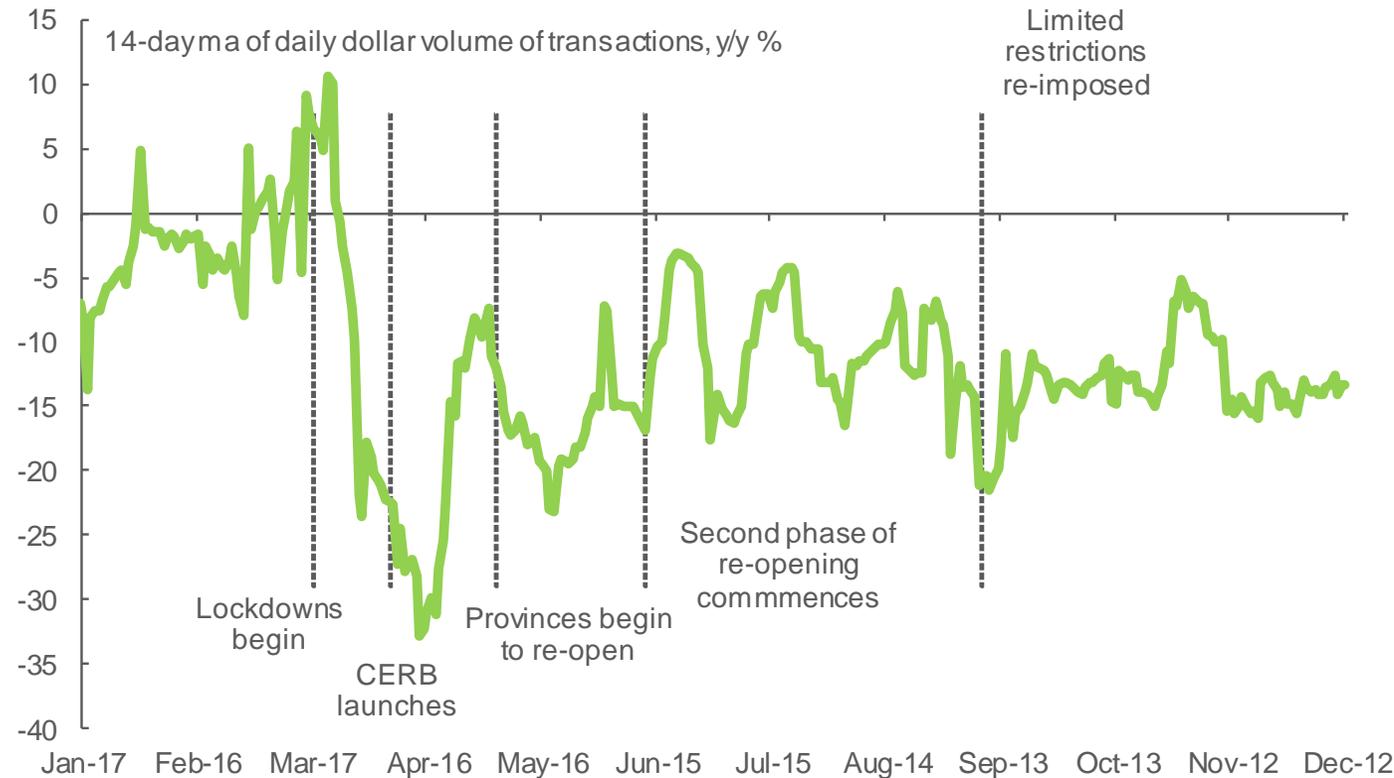


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

4. Retail Transactions Data: ABM Transactions Stable Below 2019 Levels

- The volume of debit card transactions through automatic banking machines (ABMs) remained stable in the last few weeks (Chart 11), despite a pickup in overall debit/credit card spending.
- Public health-related restrictions on retail 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 11



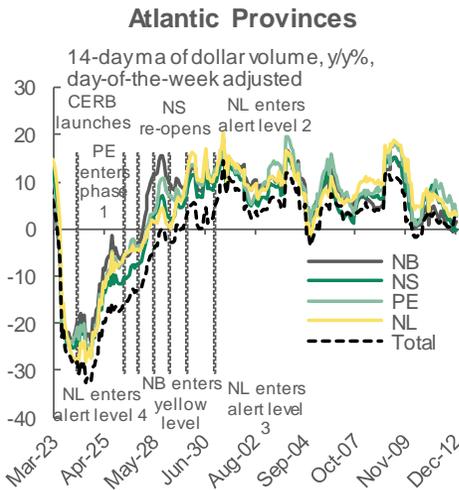
Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

4. Retail Transactions Data: Growth Starting to Turn Around

- Spending growth in provinces that imposed the latest lockdown measures started to pick up after dipping significantly in the first week of December. Spending in Ontario, Quebec, BC and Alberta continued to underperform relative to the total spending recorded through Scotiabank's payment networks (Charts 12-15).

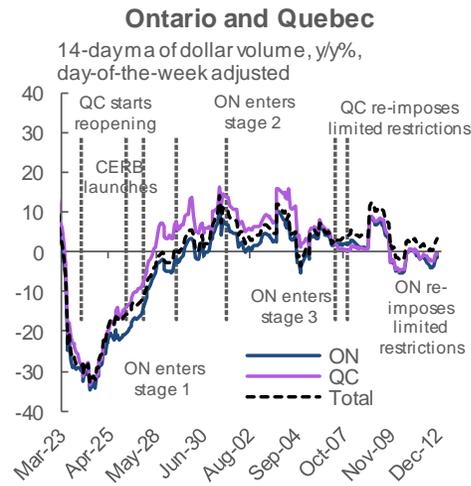
- Despite the slowing, retail spending so far remained relatively resilient at the provincial level.
- The rising spending at merchants without provincial affiliation explains the gap that has developed between total and province-level spending.

Chart 12



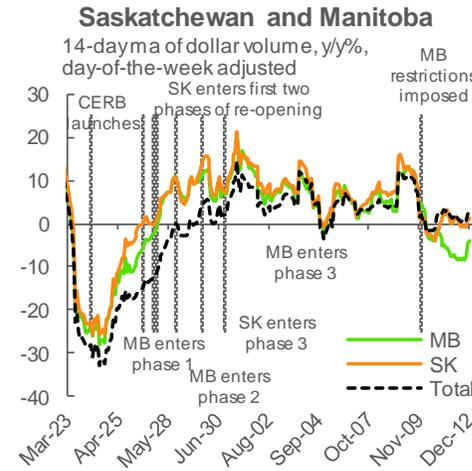
Sources: Scotiabank Economics, Data Analytics.

Chart 13



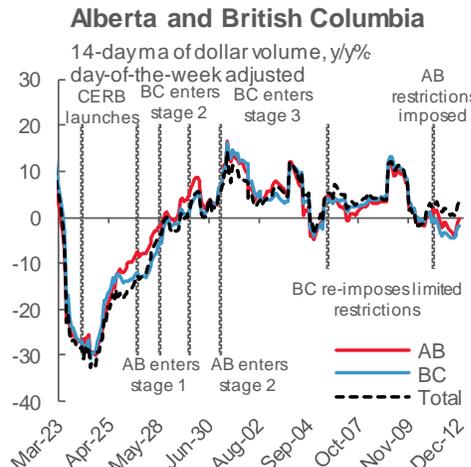
Sources: Scotiabank Economics, Data Analytics.

Chart 14



Sources: Scotiabank Economics, Data Analytics.

Chart 15

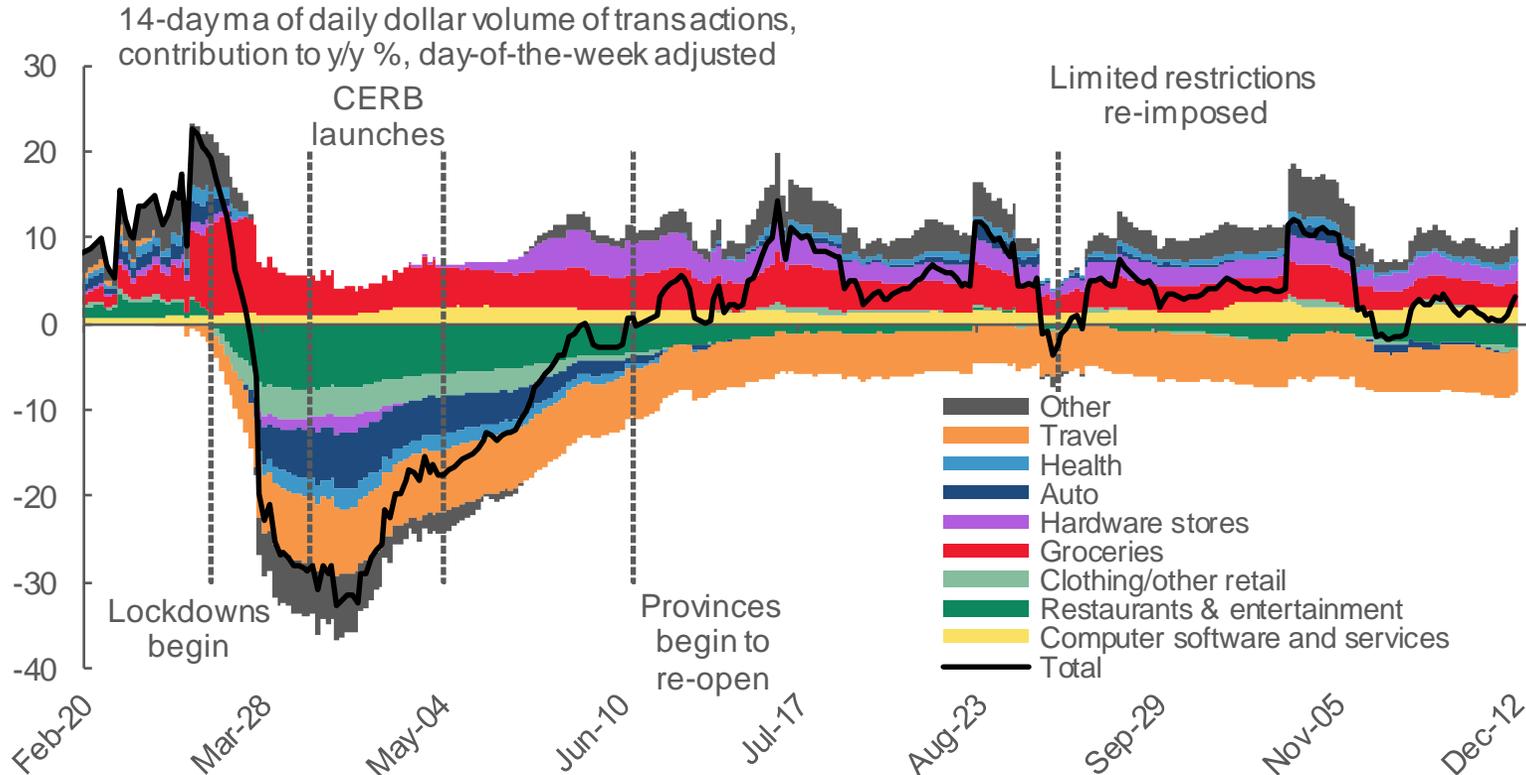


Sources: Scotiabank Economics, Data Analytics.

4. Retail Transactions Data: Few Sectors Account for Most of Growth Increase

- Most changes in growth since the summer were driven by sectors that surpassed the 2019 levels, while little, if any, change can be seen in travel and entertainment, which continue to languish far below the 2019 levels.
- A pickup in growth was seen in a few categories, while the majority of spending is relatively stable in y/y terms (Chart 16).

Chart 16

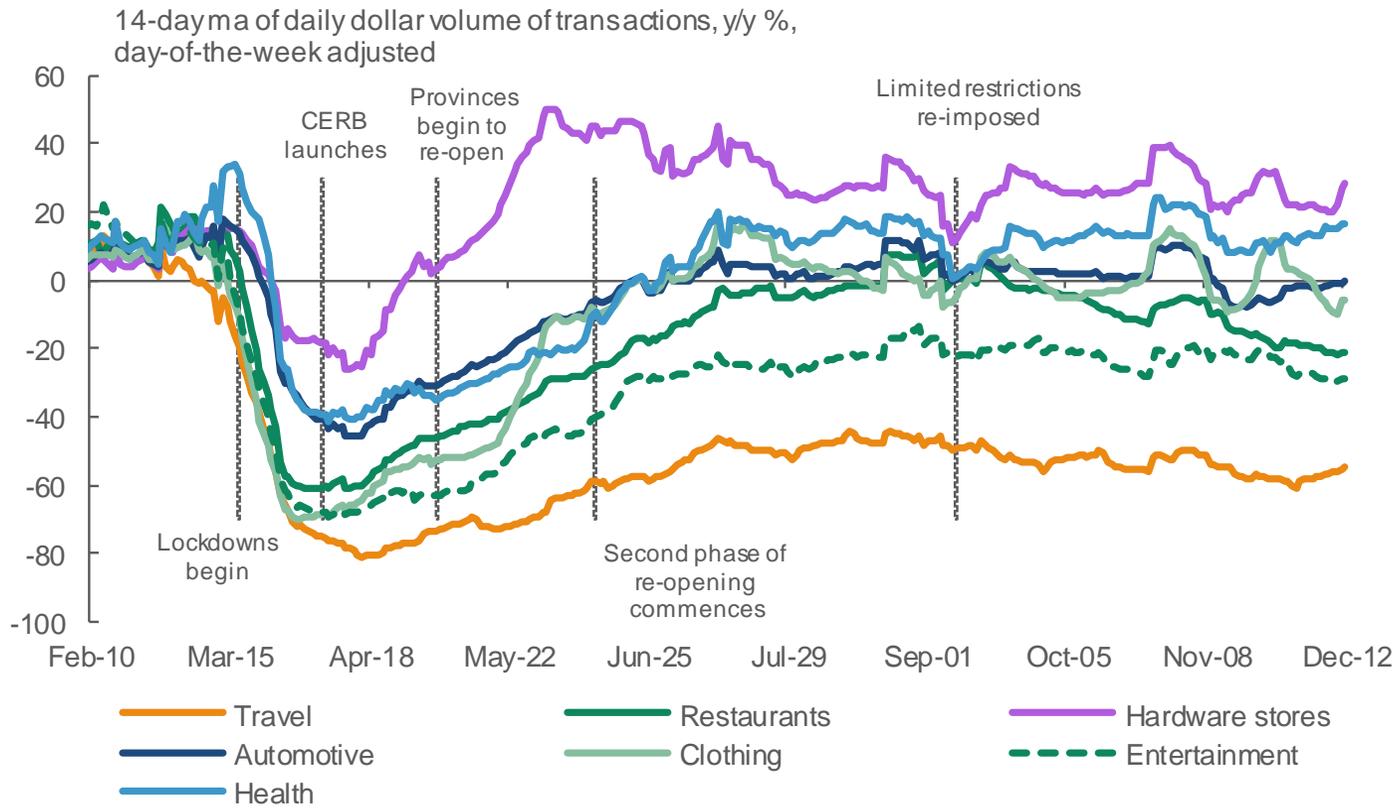


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

4. Retail Transactions Data: Hardware Stores, Clothing Show Pickup Lately

- With restaurants and entertainment spending slowing further below last year's levels, a slight uptick in travel spending could be a sign of Canadians finding opportunities for travel inside and outside the country (Chart 17)
- Spending at hardware and clothing stores picked up in mid-December, likely as consumers continued their holiday shopping.

Chart 17

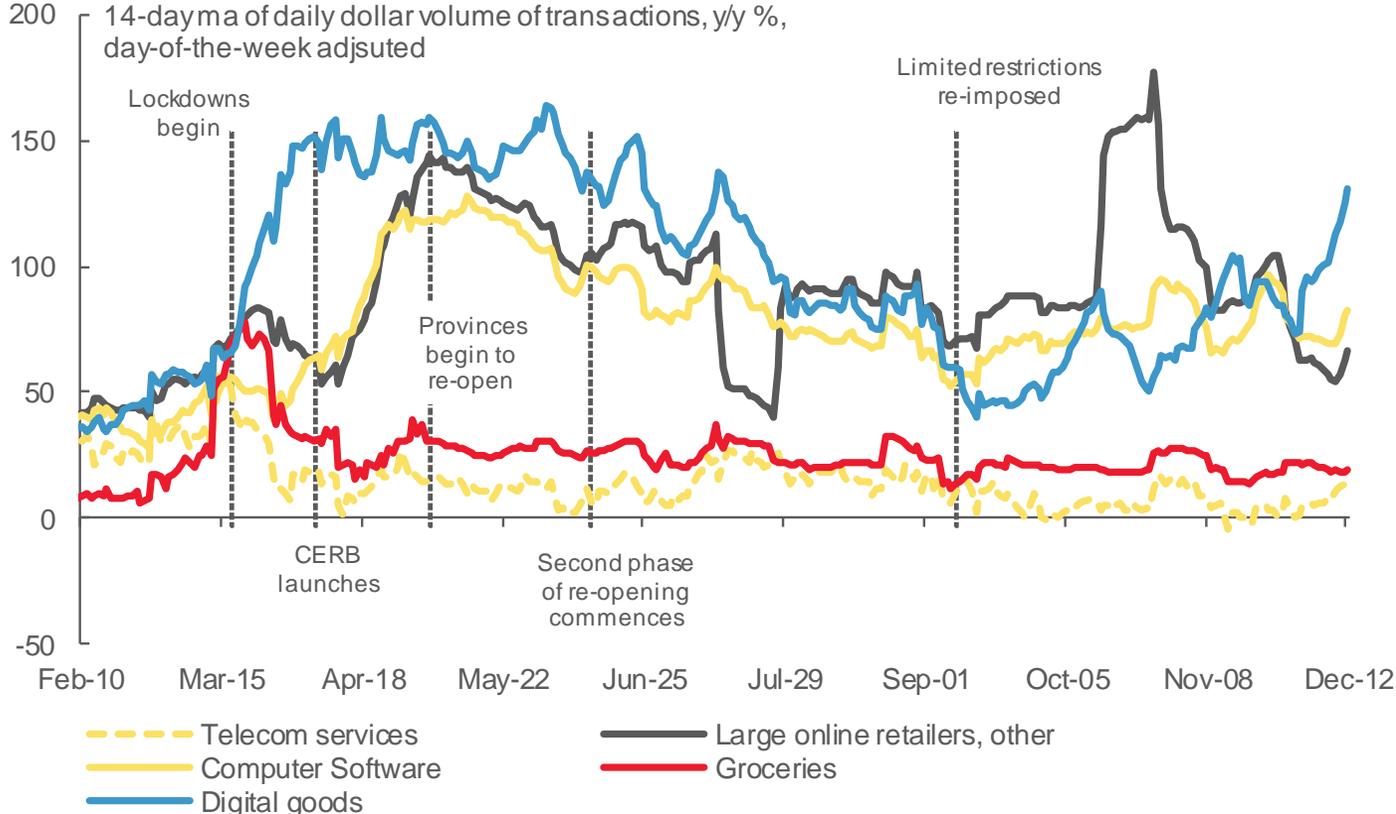


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

4. Retail Transactions Data: Digital Spending Rises Again

- With Black Friday and Cyber Monday overall spending remaining slightly above last-year's levels, the categories that benefited from the move to digital purchases saw a pickup in growth recently, while spending on groceries remained relatively stable (Chart 18).

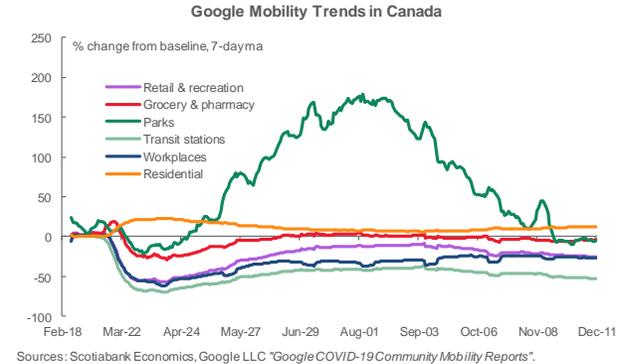
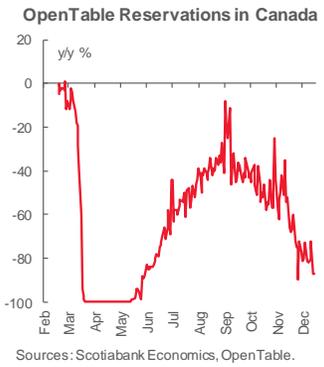
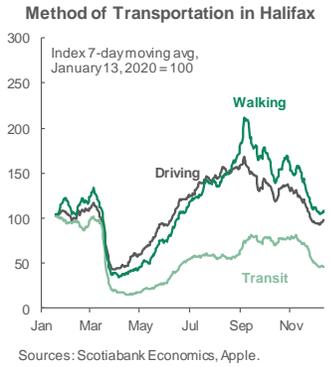
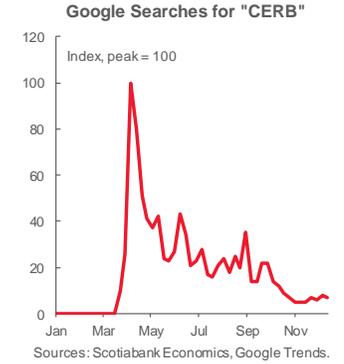
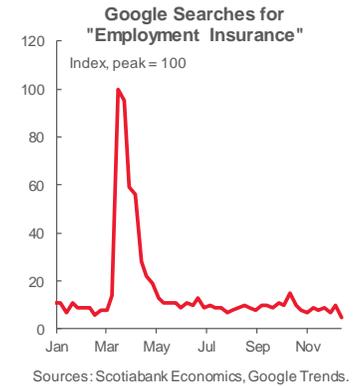
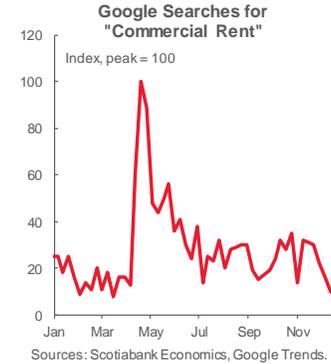
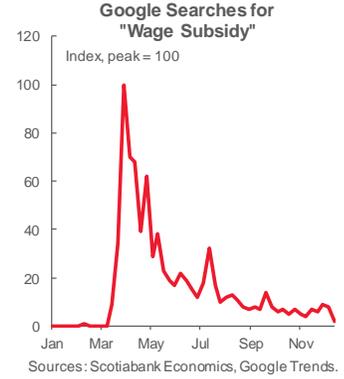
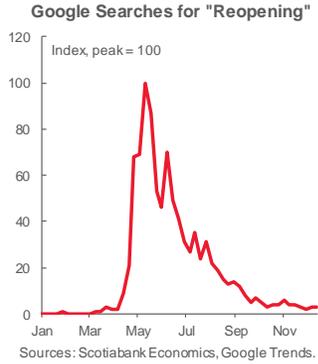
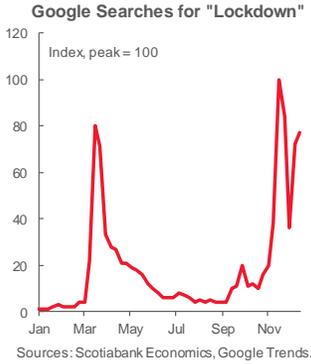
Chart 18



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

5. Other High-Frequency Indicators Of Activity

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



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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.