



Tracking the Canadian Economy through COVID-19: Insights from customer transactions – January 28, 2021

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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 January 23rd, y/y growth in business sector transactions subsided after picking up last week:
 - The spike in payments to the financial industry reversed itself, transactions returning to more normal levels. Manufacturing firms have seen transactions average slightly above year-ago levels for several weeks now, which, if sustained, would be a sign of a tentative recovery starting in the sector after months of subdued payment flow.
 - Overall outgoing payments remained relatively stable in January. Payroll deposits, despite some volatility, continue to run above the levels seen a year ago. Rent totals have been gradually rising, with y/y growth only slightly negative over the past week.
- Consumer card spending growth shifted lower in the last week, as the pickup seen previously gave way to a renewed growth decline (data to January 24th). Whether the slowdown persists over the next few weeks will determine the consumer spending outlook for the first quarter of 2021, especially if COVID-19 restrictions are extended beyond the current early-February date.
 - By sector, slowing purchases at clothing stores, restaurants and health-related outlets explain most of the dip in growth. However, even online purchases slowed somewhat, perhaps a sign of consumer fatigue after strong increases in spending on these goods during pre- and post-holiday season.

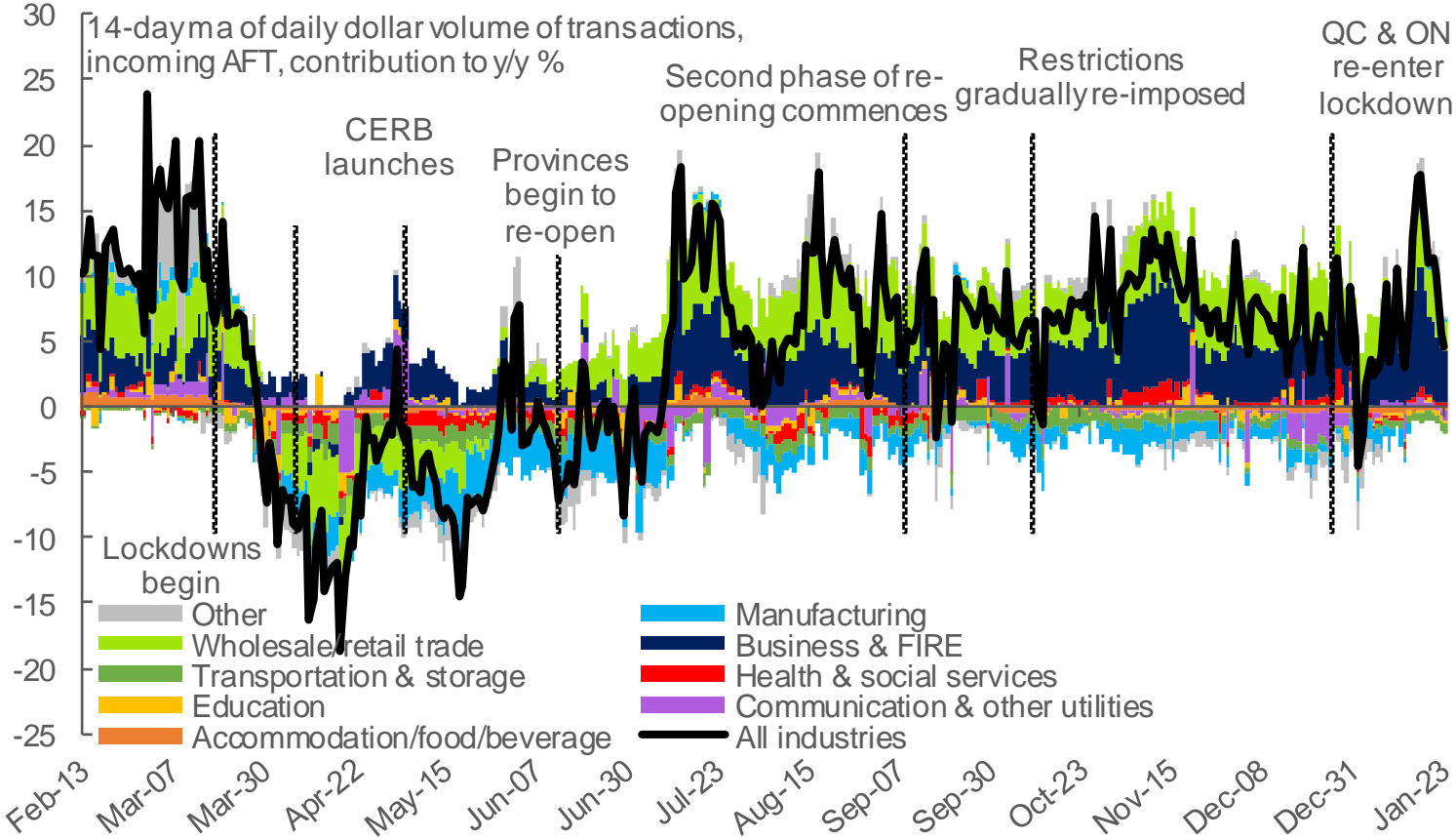
2. COVID-19 and the Canadian Economy: Scotiabank Transactions Data

- 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.
- 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.
- In the current circumstances, comparing the dollar volumes of transactions in the current year to its level of a year ago should help track growth through the re-opening phase.

3. Business Transactions Data: Growth in Payments Reverses After a Strong Jump

- Updated to January 23rd, y/y growth in business sector transactions subsided after picking up last week (Chart 1).
- The spike in payments to the financial industry reversed itself, transactions returning to more normal levels. Manufacturing firms have seen transactions average slightly above year-ago levels for several weeks now, which, if sustained, would be a sign of a tentative recovery starting in the sector after months of subdued payment flow (charts 2-6).
- Automated Funds Transfers (AFT) are used for:
 - rent and mortgage payments;
 - payroll deposits; and
 - other bills.

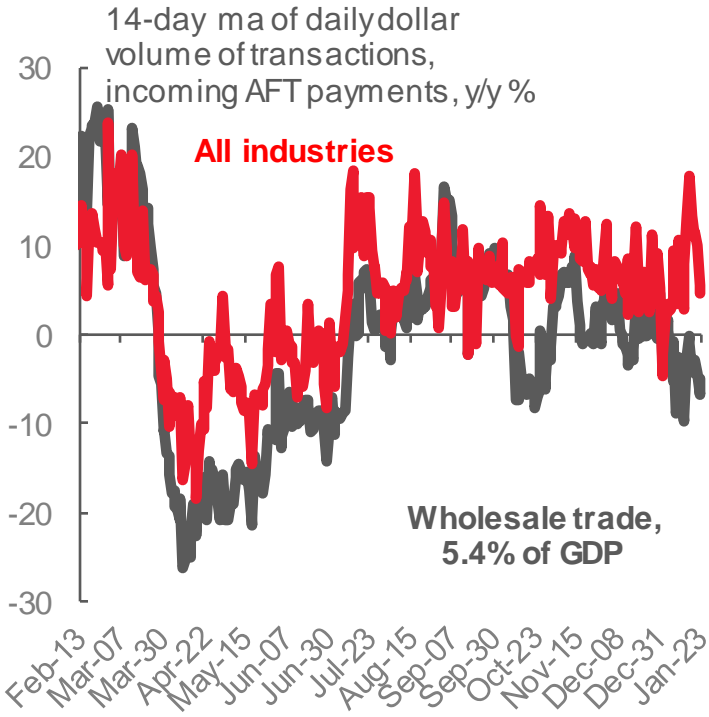
Chart 1



Sources: Scotiabank Economics, Data Science and Analytics.

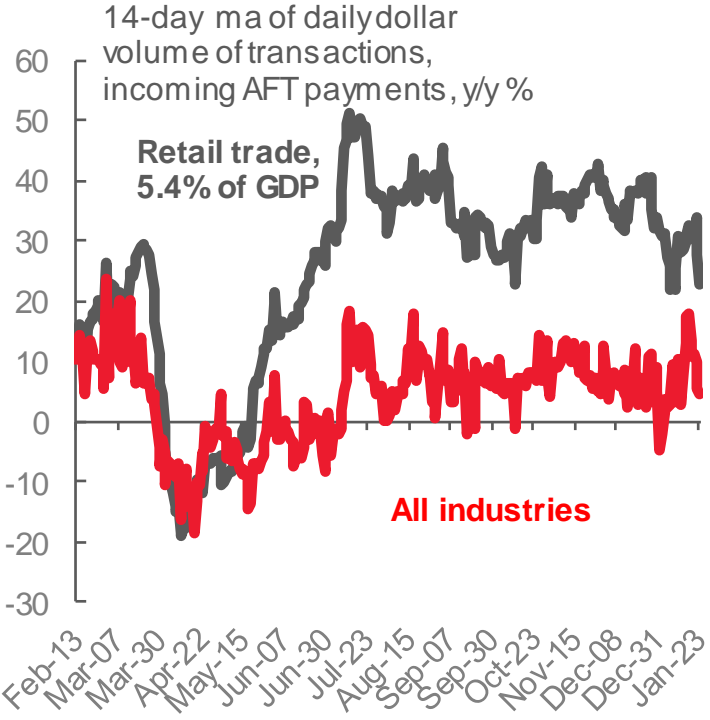
3. Business Transactions Data: Retail and Wholesale Payments Stabilized

Chart 2



Sources: Scotiabank Economics, Data Science and Analytics.

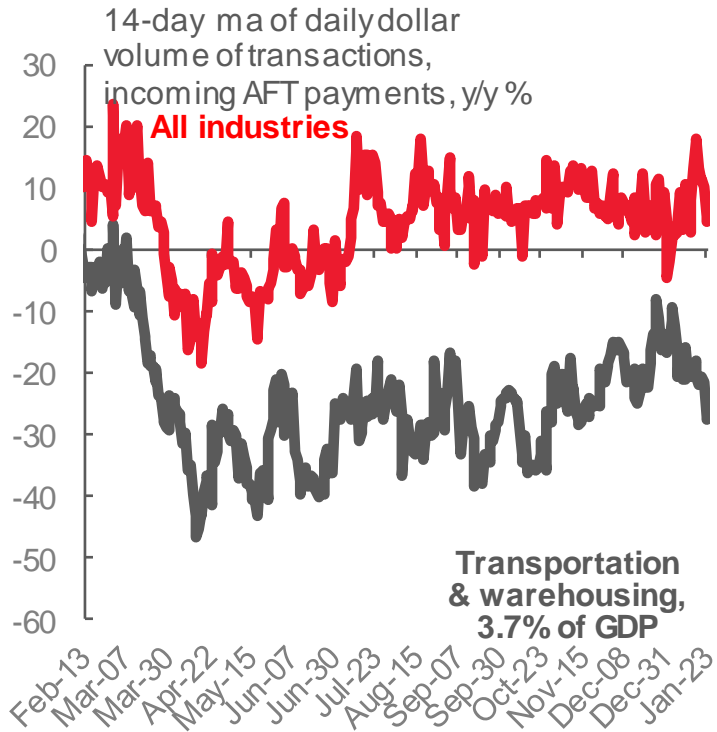
Chart 3



Sources: Scotiabank Economics, Data Science and Analytics.

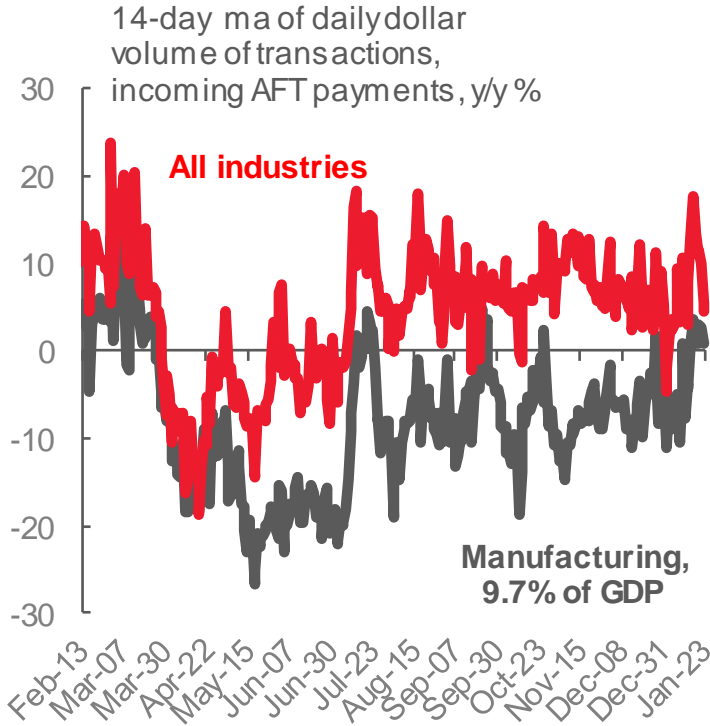
3. Business Transactions Data: Manufacturing Payments Hold Level with Last Year

Chart 4



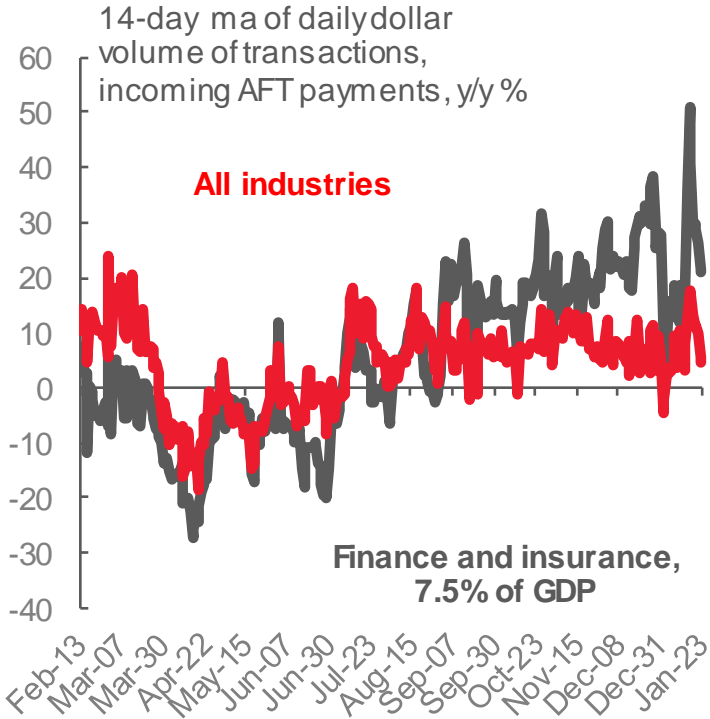
Sources: Scotiabank Economics, Data Science and Analytics.

Chart 5



Sources: Scotiabank Economics, Data Science and Analytics.

Chart 6

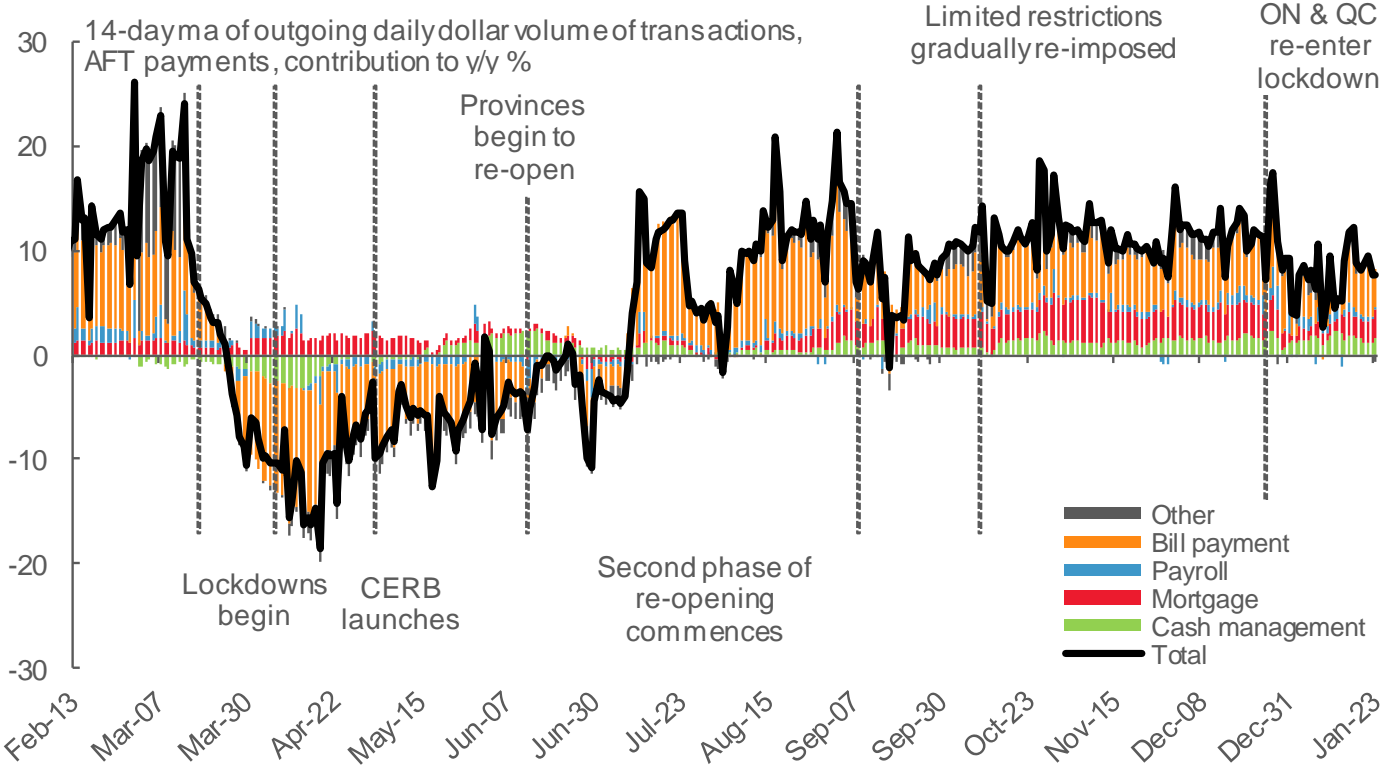


Sources: Scotiabank Economics, Data Science and Analytics.

3. Business Transactions Data: Growth in Bill Payments Stable In January

- Overall outgoing payments remained relatively stable in January (Chart 7).
- Payroll deposits, despite some volatility, continue to run above the levels seen a year ago. Rent totals have been gradually rising, with y/y growth only slightly negative over the past week (Charts 8 and 9).
- The Canada Emergency Rent Subsidy program has continued to ramp up in January, with over \$800M in subsidies approved for 266K applicants as of January 24th since the inception of the program (see [here](#)).

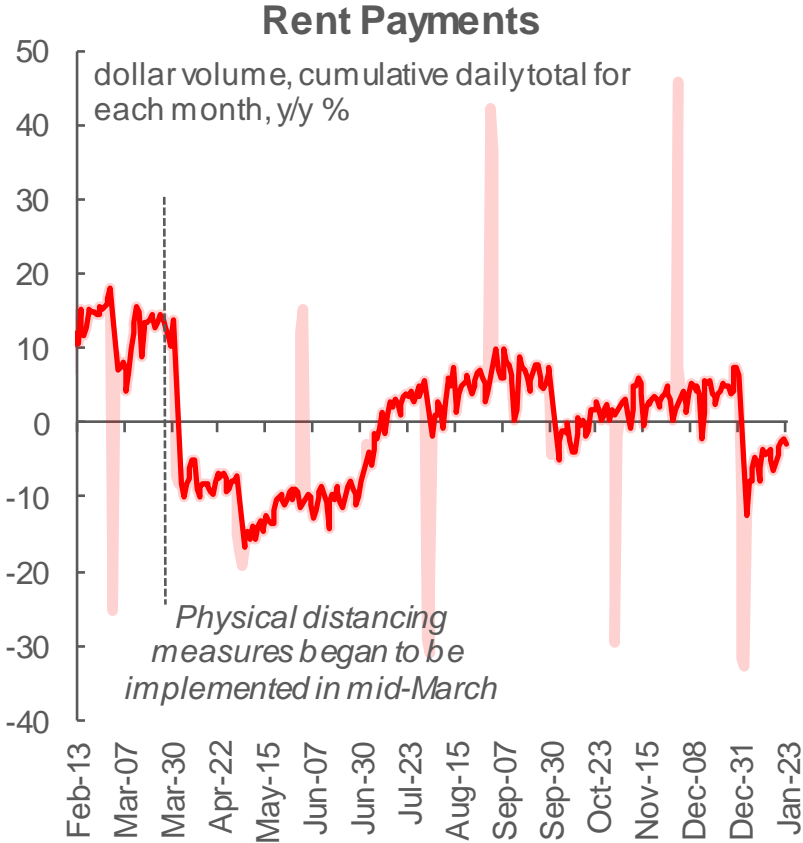
Chart 7



Sources: Scotiabank Economics, Data Science and Analytics.

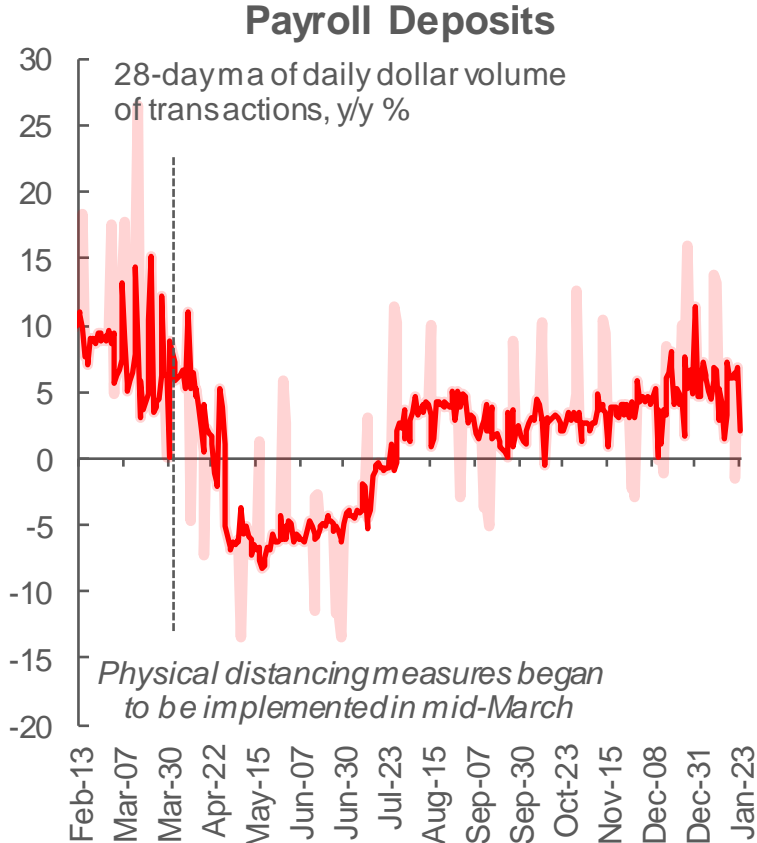
3. Business Transactions Data: Rent Payments Push Closer to Year-Ago Levels

Chart 8



Sources: Scotiabank Economics, Data Science and Analytics.

Chart 9

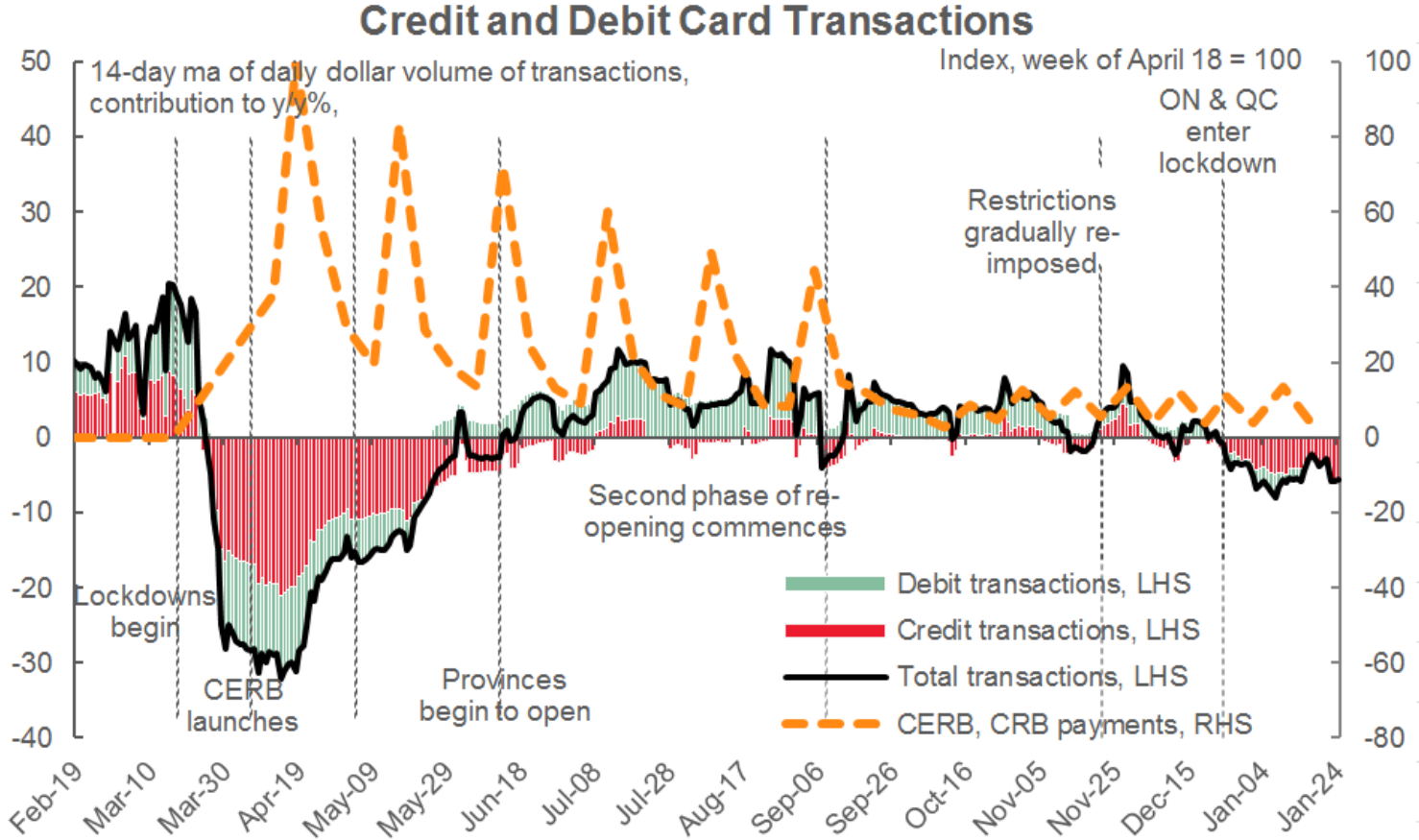


Sources: Scotiabank Economics, Data Science and Analytics.

4. Retail Transactions Data: Spending Declined Again Recently

- Consumer card spending growth shifted lower in the last week, as the pickup seen previously gave way to a renewed growth decline (data to January 24th). Whether the slowdown persists over the next few weeks will determine the consumer spending outlook for the first quarter of 2021, especially if COVID-19 restrictions are extended beyond the current early-February date (Chart 10).
- Lower credit card spending continued to drag overall purchases lower.

Chart 10

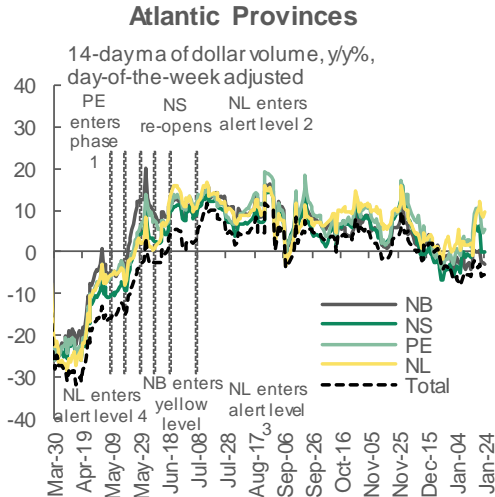


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

4. Retail Transactions Data: Card Spending Dipped Across Provinces

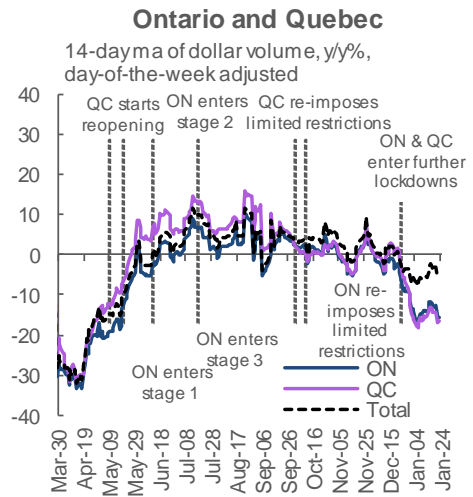
- The dip in spending is seen across provinces, but Ontario, Quebec, and Alberta remain the weakest overall (Charts 11-14).
- Growth in the Atlantic provinces continued to outperform the national average in the last few weeks.

Chart 11



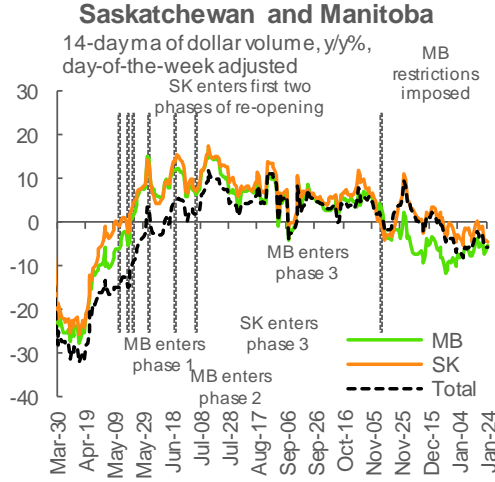
Sources: Scotiabank Economics, Data Analytics.

Chart 12



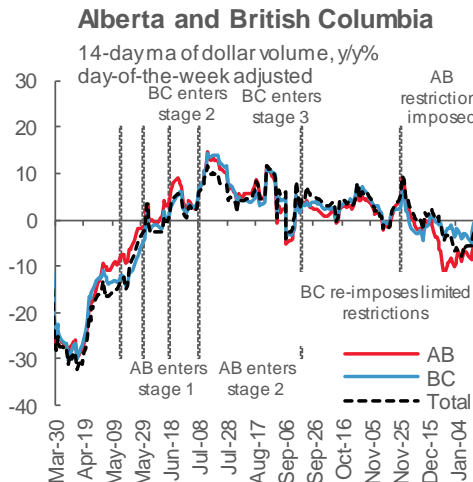
Sources: Scotiabank Economics, Data Analytics.

Chart 13



Sources: Scotiabank Economics, Data Analytics.

Chart 14

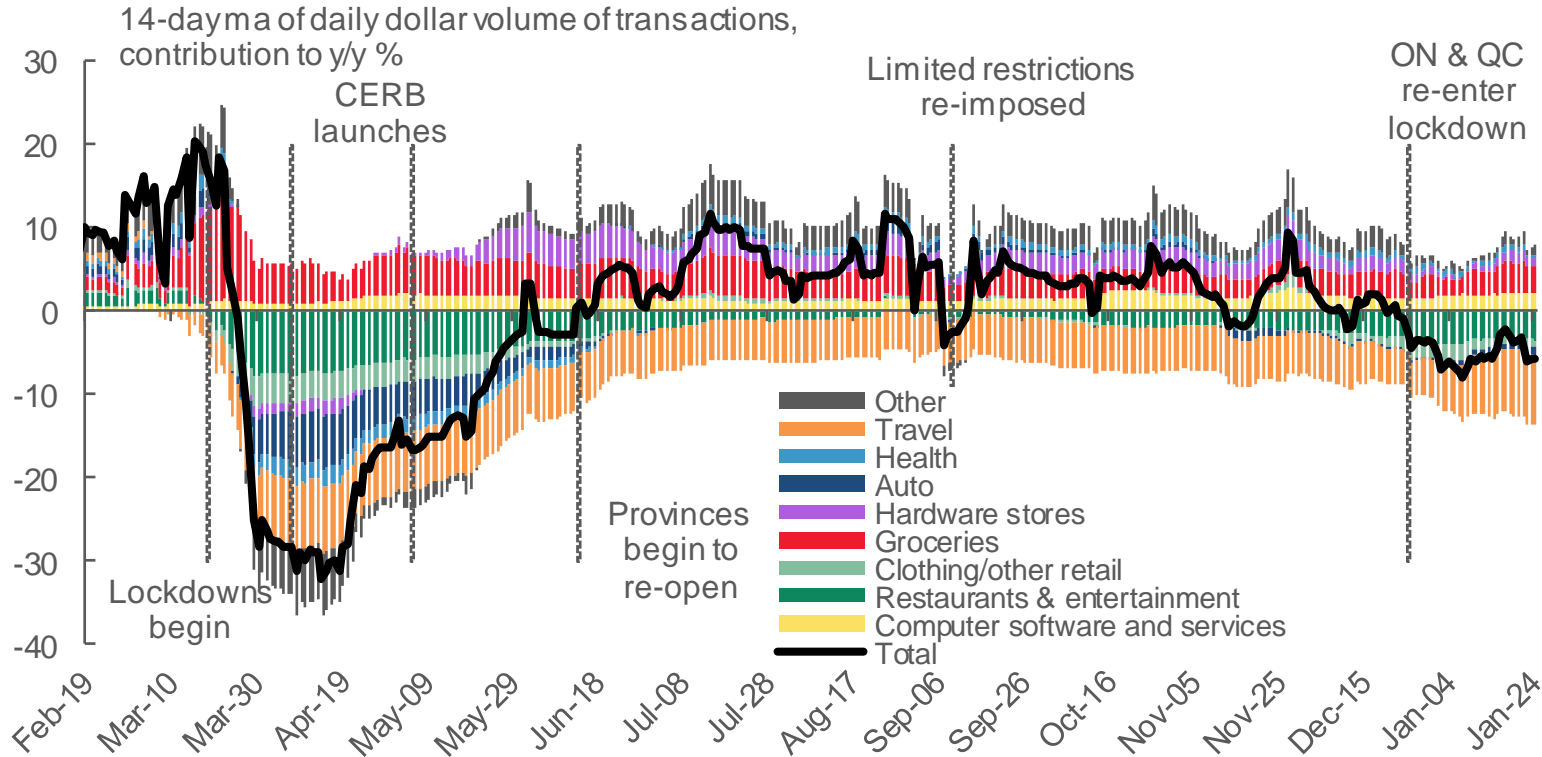


Sources: Scotiabank Economics, Data Analytics.

4. Retail Transactions Data: Latest Dip Seen Across Sectors

- By sector, in addition to travel spending, slowing purchases at clothing stores, restaurants and health-related outlets explain most of the dip in growth (Chart 15).

Chart 15

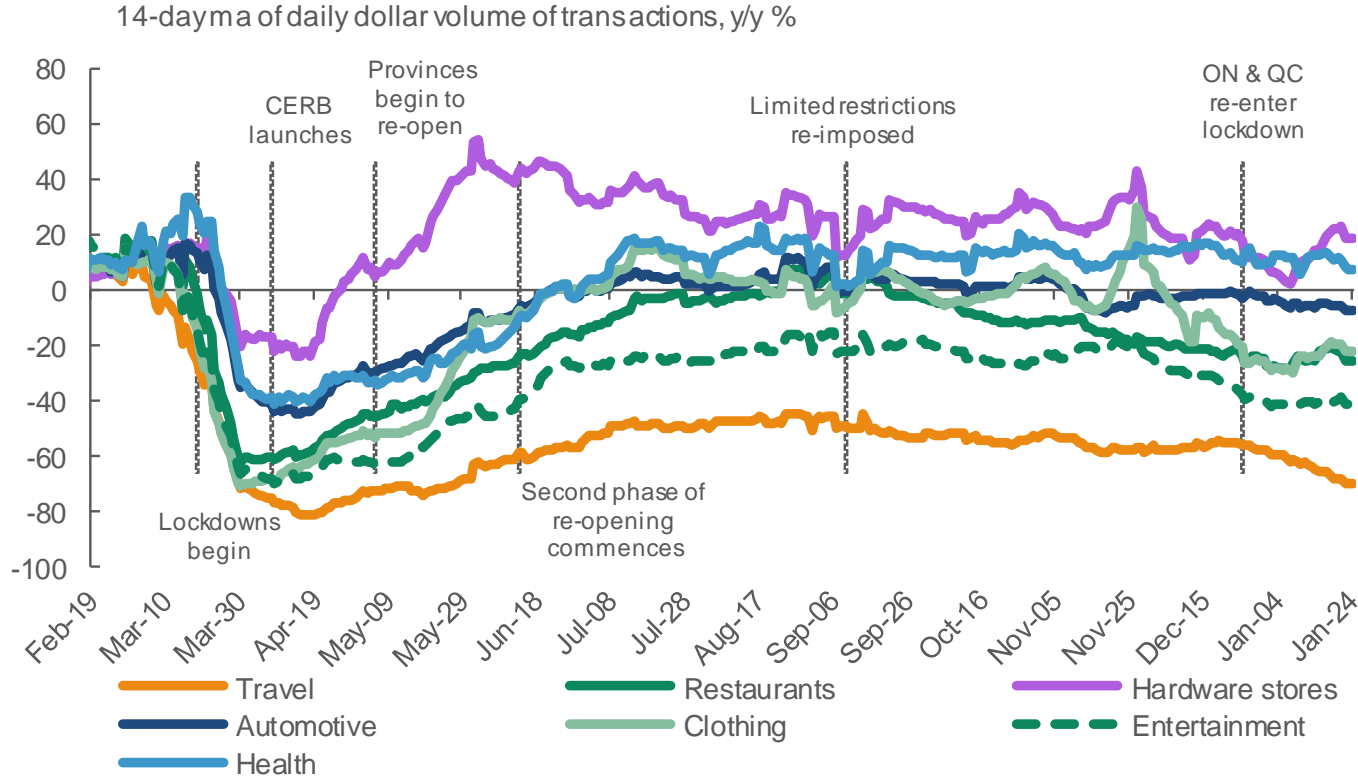


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

4. Retail Transactions Data: Clothing, Restaurants and Travel Spending Dips

- Growth shifted down in several hard-hit sectors, including clothing, restaurants and travel. Hardware stores saw y/y spending ease slightly in the past week (Chart 16).

Chart 16

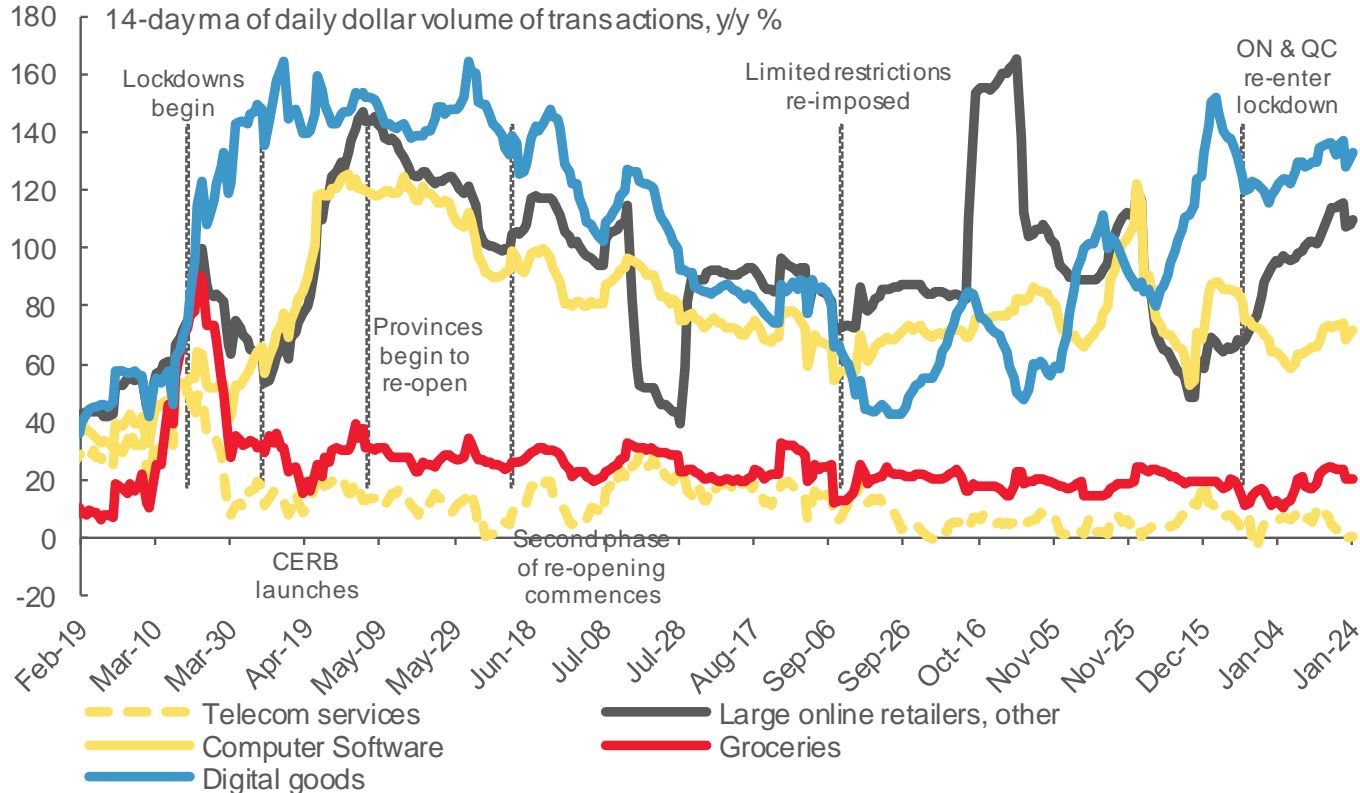


Sources: Scotiabank Economics, Customer Insights, Data & Analytics.

4. Retail Transactions Data: Online Spending Growth Eases

- Online purchases slowed somewhat, perhaps a sign of consumer fatigue after strong increases in online spending during pre- and post-holiday season (Chart 17).
- Spending continues to migrate increasingly online as the pandemic accelerated a pre-existing trend towards online shopping and on-demand delivery services.

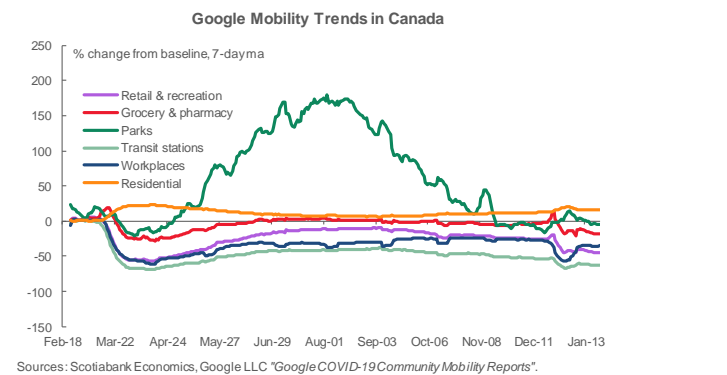
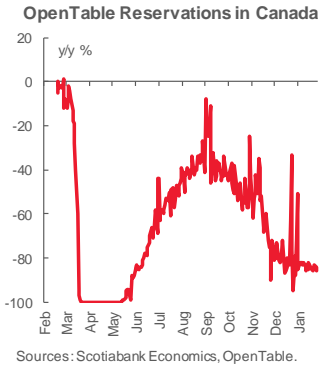
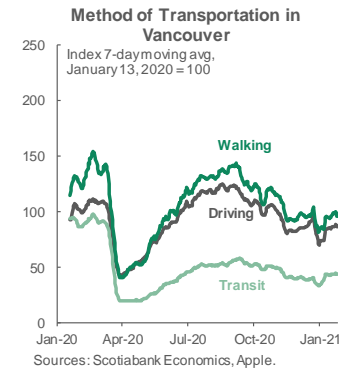
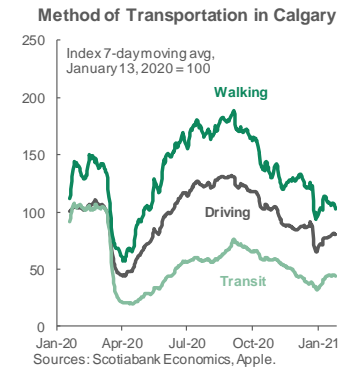
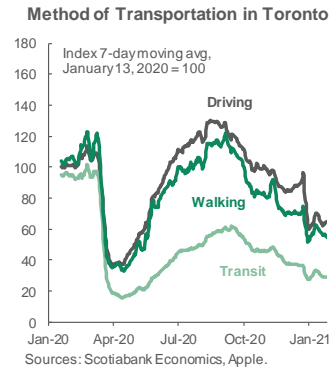
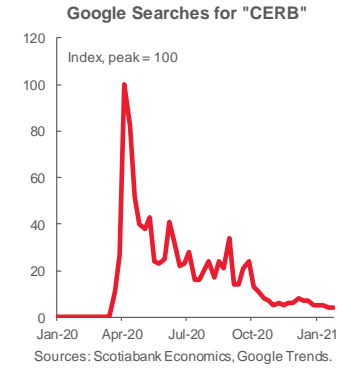
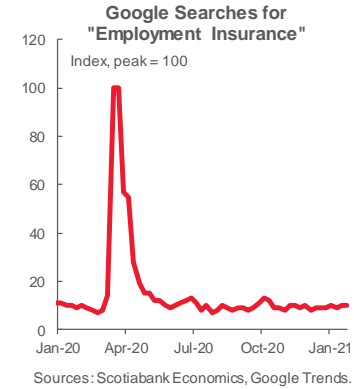
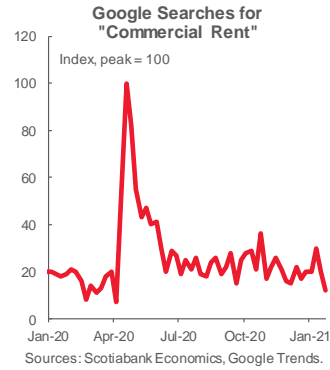
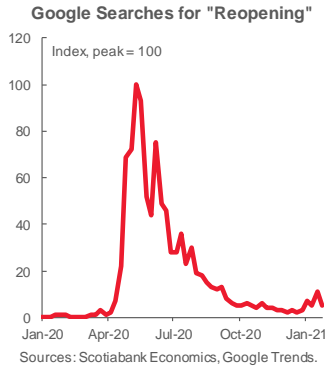
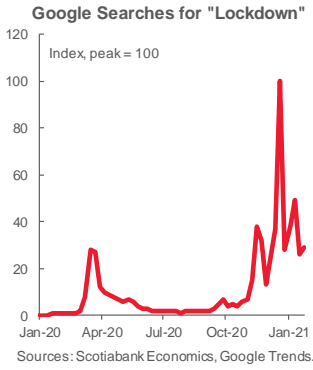
Chart 17



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

5. Other High-Frequency Indicators Of Activity

Charts 18-31 Google Searches, Various Keywords, Dining and Transportation Data



6. Caveats

- 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 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.

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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.