

Foreign On-Line Sales Don't Explain Away Weak Canadian Consumer Spending

- Retail sales beat expectations in November...
- ...but the gains were narrowly driven
- Autos and parts drove almost all of the gain
- November GDP is tracking flat
- Q4 total retail sales volumes fell by the most since 2018Q1
- The foreign 'Amazon' effect on retail sales is trivial...
- ...such that the BoC should view consumption trends as genuinely weak

Retail sales, total / ex-autos, m/m % change, November

Actual: 0.9 / 0.2

Scotia: 0.6 / 0.2

Consensus: 0.6 / 0.5

Prior: -1.1 / -0.4 (revised from -1.2 / -0.5)

Total retail sales growth was stronger than expected but narrowly concentrated upon autos and parts. Retail sales volumes are tracking the biggest quarterly contraction since 2018Q1. This is genuine weakness. Data and arguments presented below will demonstrate that leakage of retail sales to on-line web sites out of the country is having a very minor effect on total retail sales in Canada.

The value of retail sales increased by 0.9% m/m and most of that was due to higher volumes (+0.7%).

By sector, the value of sales increased in November in six out of eleven categories but most of the gains were trivial. As chart 1 shows, the weighted contribution to growth in the value of retail sales was overwhelmingly skewed toward vehicles and parts.

By sector, the volume of retail sales increased in five out of eleven categories. Here too, the weighted contributions to sales growth were heavily driven by autos and parts (chart 2).

Excluding autos and parts results in a sales gain of just 0.2% m/m in value terms and 0.1% m/m in volume terms.

Retail sales volumes are tracking a decline of 2.9% q/q in Q4 assuming a flat December (chart 3). This follows an increase of only 1.0% q/q SAAR in Q3 over Q2. Retail sales volumes have been tracking very poorly for two years now. While the earlier part of that weakness was likely because Ottawa overstimulated the consumer sector with a large increase in child benefit payments that drove consumption gains at the expense of the future, that argument is now getting a bit long in the tooth. Something else is going on and it could be ongoing evidence of a strained consumer.

My monthly GDP model leans toward 0% m/m growth in November ahead of next Friday's release.

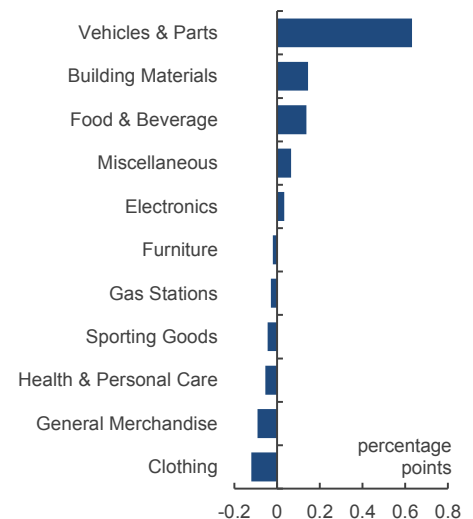
The BoC's dilemma here lies in understanding why the trend in sales volumes ex-autos is so weak. Year-to-date retail sales ex-autos were down by 0.3% m/m.

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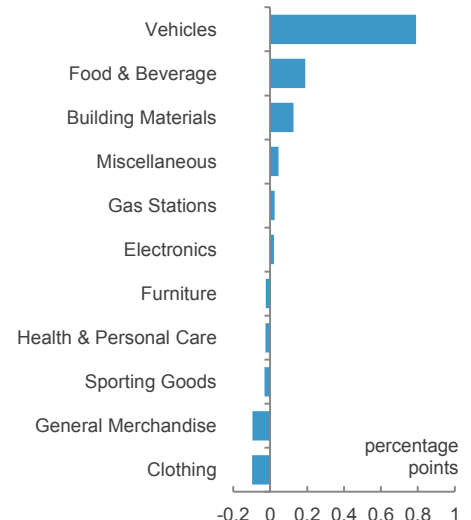
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Weighted Contributions to November Real Retail Sales



Sources: Scotiabank Economics, Statistics

Weighted Contributions to November Nominal Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

There has been no growth at all in this measure over the full year. Sales vols ex-autos are tracking 3.2% lower in Q4 after only a 0.7% rise the prior quarter and 1.5% gain in Q2 after a 1.3% drop in Q1.

One possibility involves addressing whether Canadian retail sales are underreporting the strength of the Canadian consumer because they do not capture on-line sales from sites outside of the country. So are they? In a word, no. In fact, it seems to be a total ruse for the Bank of Canada to be suggesting as much in its latest batch of communications as it appears to be not well grounded in any data as opposed to conjecture. This is important because it suggests that the trend in Canadian consumer spending is indeed weak and that matters for assessing the amount of slack in the economy. In turn, that matters to the inflation outlook (at least as the BoC sees it) and the outlook for the BoC's policy rate. We can dig into some data on this.

StatsCan's retail sales report includes on-line sales from within Canada, but not on-line sales shipped to Canada from abroad. With the wonderful help of the trade folks at Statistics Canada in terms of the data sources, we can put some rough parameters to estimating the potential impact if on-line sales shipped from abroad were to be included in the retail sales figures.

Where such imported on-line sales would show up is in the postal and couriers import data in the international merchandise trade accounts ([here](#)). Before delving into this, the data should be treated cautiously. There is nothing better available, but revisions are always possible and almost all of the value of such sales is reportedly booked in New York which seems unusual.

A problem, however, is that StatsCan has no data to enable it to break down this category. Thus, postal and courier imports could be on-line sales from Amazon or wherever in the US, but it could also be a business importing anything through postal and courier services, or Grandma sending Junior a teddy bear in the mail!

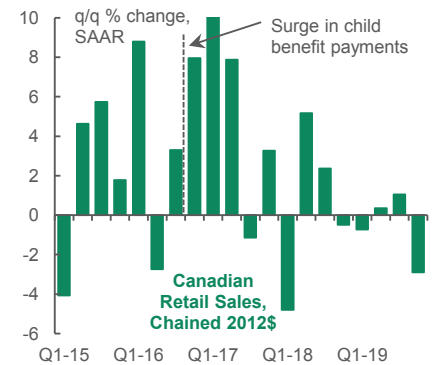
There is a program used by retailers with the Canada Borders Services Agency folks called the Courier Low Value Shipments program (CLVS) which reduces red tape for bundles valued at under \$2500. This is the program that is likely used by on-line retailers outside of the country for the vast majority of purchases, but there is no data on this.

We can still put some parameters to the debate. This entire category of postal and couriers imports trends around three quarters of a billion dollars per month in seasonally unadjusted terms as shown in chart 4 that also shows our seasonal adjustment to the data. Total retail sales as reported by StatsCan equal about \$52 billion. **Even if ALL of this postal and couriers import category is comprised of on-line sales coming from outside of the country, then it's less than 2% of total retail sales as reported by StatsCan and about 2 ½% of retail sales ex-autos and parts** although I'm not sure one should exclude parts that may be bought on-line.

Obviously **that's an outer limit to the estimate of on-line sales abroad shipped to Canadian consumers** since it's unreasonable to include all postal and courier imports, but we can't disaggregate it further and the outer limit estimate already demonstrates how small this category is in any event.

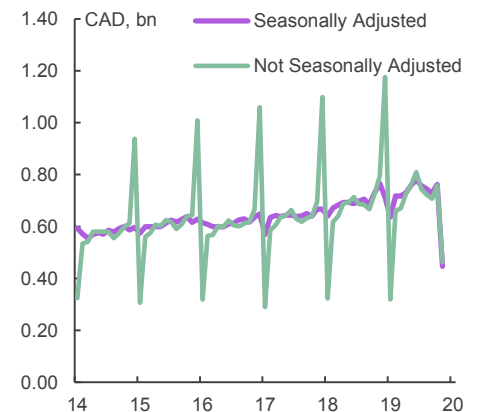
Further, postal and couriers imports spike every December and crash every January which is obviously a holiday shopping influence. The December spikes keep getting higher each year, from just over C\$800 million in Dec 2013 to just under \$1.2 billion in December 2018 as we await December 2019 trade figures. That's large percentage growth, but even if it jumps by a large percent again in December, it would still be a small share of retail sales.

Retail Sales Weakness After Surge in Child Benefits Spent



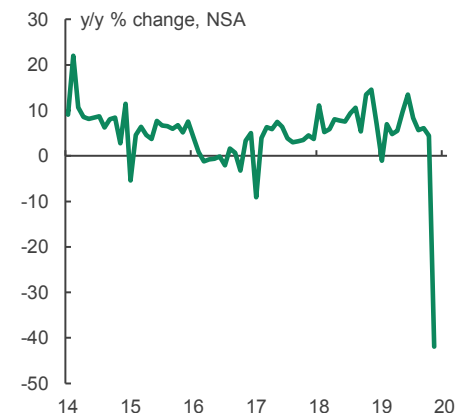
Sources: Scotiabank Economics, Statistics Canada.

Canadian Global Imports Through Postal Services & Couriers



Sources: Scotiabank Economics, Statistics Canada.

Canadian Global Imports Through Postal Services & Couriers



Sources: Scotiabank Economics, Statistics Canada.

Also note that November 2019 postal and courier imports tanked by 42% y/y which was very unusual for a November (chart 5). Chart 6 shows the seasonally adjusted month-ago change. The last time we saw that magnitude of contraction was in the GFC. The CN rail strike might have played a role here, but I'm not clear about how it might have done so. I think companies like Amazon mostly use planes and trucks, not rail, but maybe the whole system was thrown out of whack. If so, December should see a really big spike if the logjam got cleared. In that case, you'd have to average out November and December figures and it would likely still be a very small share of retail sales if they were to be included. Even smaller as a share of total consumption.

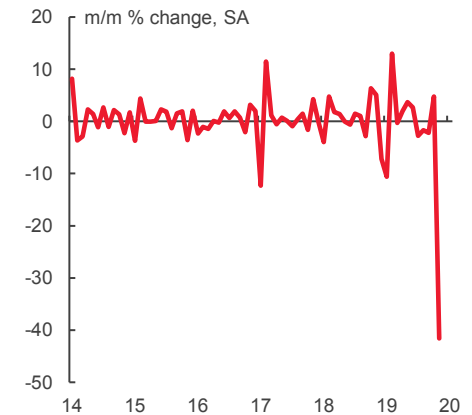
Note three other pertinent observations. First, any small amount of total retail sales that is represented by on-line sales abroad would be captured in GDP through a small addition to total consumption offset by a higher import leakage effect as a drag on GDP growth.

Second, there might be additional growth in on-line purchases abroad by Canadian consumers once the CUSMA/USMCA deal is ratified and fully implemented likely by sometime into 2021. That's because the duty-free limit for on-line purchases will rise from \$20 at present to \$150.

Third, on-line external sales are not the only thing that the retail sales report excludes; electronic ticket purchases, travel and accommodation bookings and financial transactions are also excluded. These will be captured in total consumption along with services spending that the retail figures generally underrepresent.

So what's the bottom line? The consumer is indeed weak and weaker than the BoC recently let on.

Canadian Global Imports Through Postal Services & Couriers



Sources: Scotiabank Economics, Statistics Canada.

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