

Canadian Consumers Needed A Boost Before Twin COVID-19 and OPEC+ Shocks

- Retail sales posted a stronger than seasonally usual decline
- Retailers have faced weakness for a long time now
- Total consumption growth has been tepid, focused upon services
- Consumers needed a boost before the twin COVID-19 and OPEC+ shocks

CDN retail sales, m/m % change, SA, January:

Actual: 0.4 / -0.1

Consensus: 0.3 / 0.2

Prior: 0.2 / 0.7 (revised up from 0.0 / 0.5)

Yet more evidence arrived that Canadian retailers were in a weak spot well before the virus hit and that the case for adding stimulus was in place well before the twin COVID-19 and OPEC+ shocks.

Retail sales volumes fell 0.3% m/m in January. Only higher prices paid kept the value of sales in the black (+0.4%).

Sales ex-autos were down in both value (-0.1%) and particularly volume (-0.8%) terms.

Sector breadth was quite poor. Sales fell at furniture/furnishings stores (-0.5% m/m), electronics/appliance stores (-2.8%), building materials and outdoor equipment outlets (-1.9%), food/beverage retailers (-0.7%), clothing/accessories joints (-1.3%), sporting goods/hobbies stores (-2.0%) and general stores (-2.4%).

Sales rose at gas stations due to higher prices and volumes but they are going way down from March onward as gas prices fall and social distancing drives fewer kilometers driven. Sales were flat at health/personal care stores.

January's sales figures are nevertheless obviously stale in the current context. Figures from March onward will likely show strength in categories like food/beverage stores as hoarding kicks in. This is likely to come at the expense of big ticket items.

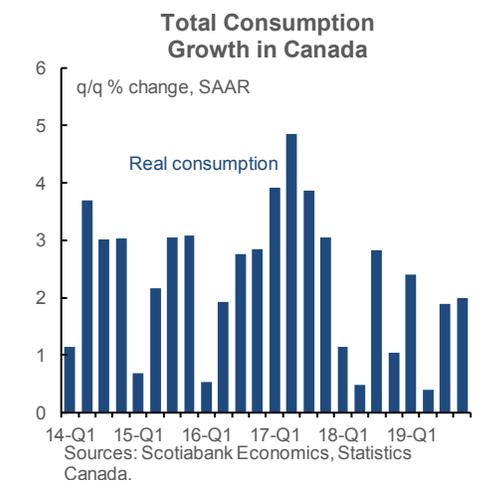
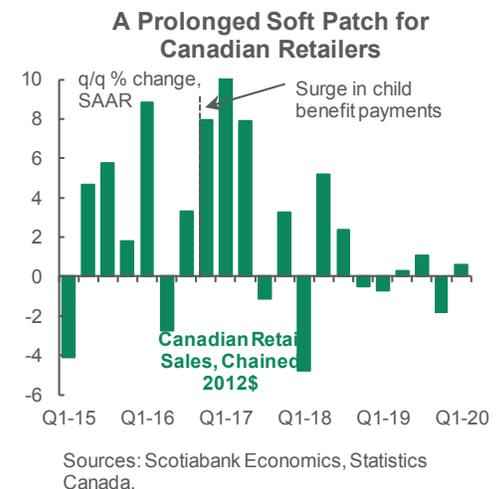
So far, retail sales volumes are tracking a +0.6% q/q gain in seasonally adjusted and annualized terms during Q1 but only because of the 1.8% drop in Q4 and the way the quarter ended with a slight gain in December. It's likely all downside risk from here as Feb/March data rolls in.

Chart 1 shows retail sales volume growth by quarter and how exceptionally weak it has been since way back in 2018Q4 and even further back if only a couple stronger prior quarters are excluded.

Chart 2 shows inflation-adjusted total consumption growth by quarter up to 2019Q4. Some describe that as strong which I view as misleading. Total

CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com



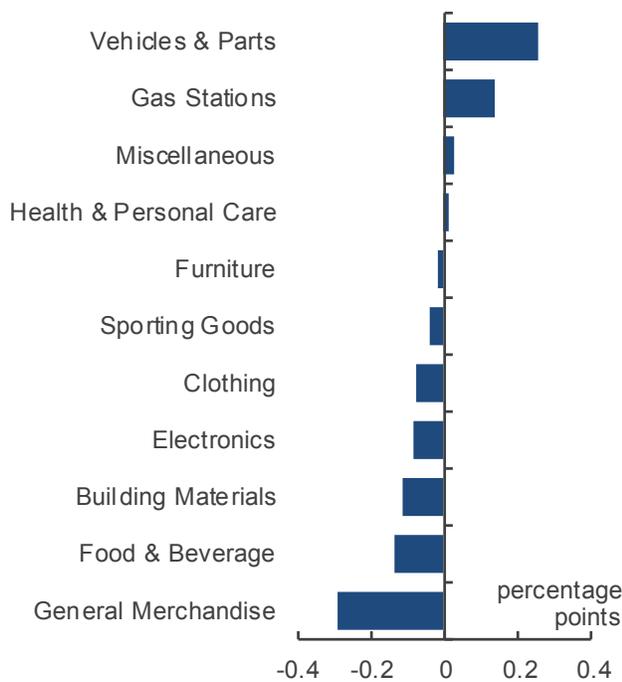
consumption growth was about 2% q/q in seasonally adjusted terms in Q3 and Q4 which is moderate. Further, only services spending buoyed the headline with gains of 2.3% and 3.4% in Q3 and Q4 respectively. Big ticket durables spending was up only 1.4% in Q3 and then slipped 0.2% in Q4. Semi-durables spending was up 1.4% in Q3 and then plummeted by 2.9% in Q4. Nondurables spending grew by only 1.8% and 1.1% in Q3 and Q4 respectively.

GDP is tracking poorly for January given declines in hours worked, retail and manufacturing volumes but a rise in house starts. We will be issuing updated quarterly projections shortly.

Also recall that the argument that consumption is stronger than it appears because retail sales don't capture on-line sales at foreign retailers is bogus. At a minimum, it lacks data to prove it. The only data we have to go by is the postal and couriers import figures that capture all packages coming into the country. Even though this overestimates consumer imports because they also included packages imported by businesses, the volumes are so relatively small that they explain nothing about weak domestic spending. Until policymakers have better data to prove their point, they should stop driving this thesis.

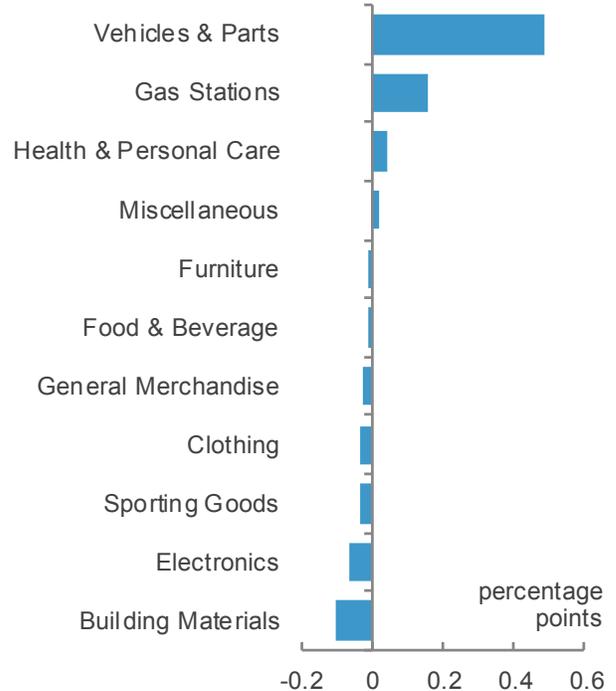
Charts 3–4 show the weighted contributions to sales growth in volume and value terms.

Weighted Retailer Contributions to January Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Weighted Retailer Contributions to January Nominal Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

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 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, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., 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 authorised 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 authorised 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., and Scotia 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.