

COVID-19 Made A Bad Situation Exponentially Worse For Canadian Retailers

- Sales plummeted by record amounts in both March and April
- Retailers were in a weak spot long before COVID-19
- Bright spots included food, 'sins', electronics and personal care
- Autos and clothing did most of the damage
- Omitted foreign on-line sales remain relatively trivial
- Domestic on-line sales helped, but by nowhere nearly enough

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

Actual: -10.0 / -0.4

Scotia: -10.0 / -3.0

Consensus: -10.0 / -4.8

Prior: 0.4 / 0.0 (revised up from 0.3 / 0.0)

Canadian retailers have suffered through no growth in sales volumes since 2018Q3 and were in a weak position before the COVID-19 shock blew the barn doors off. This continues to indicate there were stability concerns owing to a lack of stimulus before COVID-19. In turn, this weighs against some of the more strident views out there that have leaned toward drawing a line against consumer relief if not being in favour of tightening policy conditions and risking confusion toward policy directions.

The value of sales fell by 10% m/m in March which was spot-on estimates sent out ahead of consensus last Thursday. Sales ex-autos, however, fell by considerably less than I had figured. The reason for that appears to be even stronger than guesstimated gains in sales of food and health and personal care items due to pandemic-related hoarding with one or two assists from other categories.

Hats off to StatsCan for providing an advance estimate of April's sales. It's preliminary and subject to revision, but they figure that **the value of sales fell by a further 15.6% m/m in April.** It goes without saying that either figure—the one for March or the one for April—would be record-breaking but that back-to-back declines of this magnitude take us into fully uncharted waters.

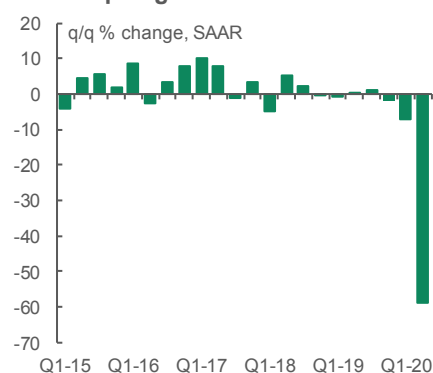
The volume of sales fell by 8.2% m/m in March such that most of the decline in the dollar value of sales came through a lower volume of sales with lower prices contributing 1.8% to the overall decline in the value of sales. StatsCan did not disclose a preliminary estimate for the volume of sales in April.

As demonstrated by chart 1, **retail sector weakness is not a new development.** There has been no overall growth in retail sales volumes since 2018Q3. Sales are tracking a drop of about 7% q/q at a seasonally adjusted and annualized rate for 2020Q1. Assuming that all or most of the decline in April came through lower volumes, Q2 is tracking a drop of 59% but is subject to prior revisions and uncertainty ahead of May and June data that will likely rein in the magnitude of this decline somewhat as regional economies reopen.

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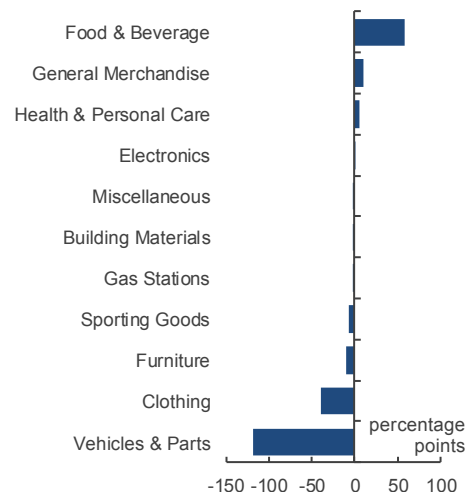
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Collapsing Canadian Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Weighted Retailer Contributions to March Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Chart 2 shows the weighted contributions to the change in sales volumes by sector. In weighted terms, most of the drop came through autos and clothing/accessories.

By sector, the value of food store sales soared by 22.8% m/m which is why core sales held up better than guessed. Health and personal care store sales were up 4.6% m/m. Gains were also registered at electronics and appliance stores (+0.8%) and general merchandise stores (+6.4%). I'm guessing electronics/appliance store sales benefit from a big IT work-from-home spend and maybe even more freezers to store the surge in food sales!

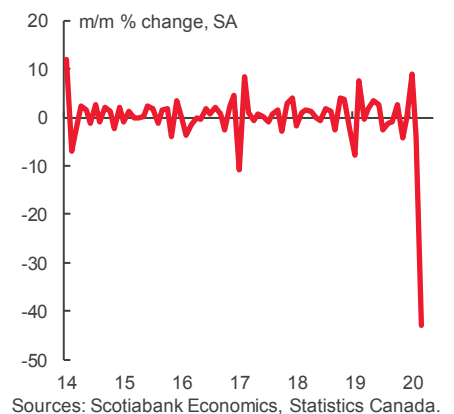
The so-called 'sins' categories were up rather smartly. Booze sales advance by 17.5% m/m and cannabis stores registered a 19.2% m/m gain (the latter is not seasonally adjusted due to a lack of history). Apparently the munchies may have helped food sales!

Autos and parts sales were down by 36% m/m, furniture/furnishings fell by 25%, building material/garden stores registered flat sales, gas stations were down 20% on prices and nobody driving, clothing and accessories sales fell by 51.5% m/m, and sporting goods/hobby store sales fell by 23.4% m/m.

The view that retail sales undercount actual sales by omitting on-line sales from foreign outlets—principally US—remains tempting but still lacking any material evidence to support it. Imports of packages across the border via postal and courier services capture all business and consumer purchases delivered into the country through such means that are heavily utilized by on-line retailers and thus overstate on-line sales to just consumers, but they nevertheless remain low. They were tracking around three quarters of a billion dollars per month throughout 2019 into early 2020 and then dropped sharply in March. Chart 3 shows the year-over-year changes in such imports through to March 2020. The data is treated cautiously, but given it's the best we have, some views that dismiss retail weakness because they omit on-line sales from abroad are not at all well grounded in the facts as currently available.

Domestic on-line sales soared by 40.4% y/y as total retail sales fell by 10.9% y/y, but on-line sales still only account for 4.8% of total retail sales in Canada. If one omits autos and parts as well as gasoline stations, then on-line sales still only account for about 7% of retail sales but with no doubt wild variations across types of retailers. **Turning to phones and computers helped many retailers, but by nowhere nearly enough to mitigate a massive decline in sales.**

Canadian Global Imports Through Postal Services & Couriers



Sources: Scotiabank Economics, Statistics Canada.

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