

Canadian Retail Sales Fully Recover

- Sales volumes are back above pre-covid levels
- May and June combined to beat estimates
- Quebec led sales with earlier reopening, Ontario to follow
- Q3 is set for an explosive gain in retail sales

CDN retail sales, m/m % change, headline/ex-autos, SA, May:

Actual: 18.7 / 10.6

Scotia: 22 / 14

Consensus: 20 / 11.9

Prior: -25 / -22 (revised from -26.4 / -22)

June estimate: +24.5% m/m headline

Canadian retail sales have fully recovered from the covid-19 shock. While there are forward-looking risks aplenty, the reality is that the sector has gone v-shaped in its recovery profile that has nevertheless brought major shifts in what people spend money on and where they spend it. Many firms and sectors are deeply strained by such adjustments but on net the industry shifts that have occurred have driven a total recovery. If you have witnessed delivery trucks aplenty flying down streets or tried to buy something only to find that it's out of stock then you have experienced first-hand what's going on here.

The C\$ largely ignored the release but that was because it was rallying hard into the numbers on a) oil and broader USD movements, and b) generally expected strength in the retail figures that confirmed direction amidst forward looking risks even though they were stronger than expected overall.

The annualized dollar value of sales has climbed back to C\$520B in June which is on par with where it stood in February after seasonal adjustments. The combined drivers were about a 19% non-annualized rise in sales in May, guidance from StatsCan that June is tracking a 24.5% rise and a slightly worse revision for April's hit (chart 1).

All of the gain in May was in volumes that were up 17.8% m/m with inconsequential changes in average prices. We don't know June's volume figures as only nominal guidance was provided, but I suspect most of June's estimate was in higher volumes (tomorrow's CPI for June will inform this). Chart 2 plots sales volumes up to June with this assumption.

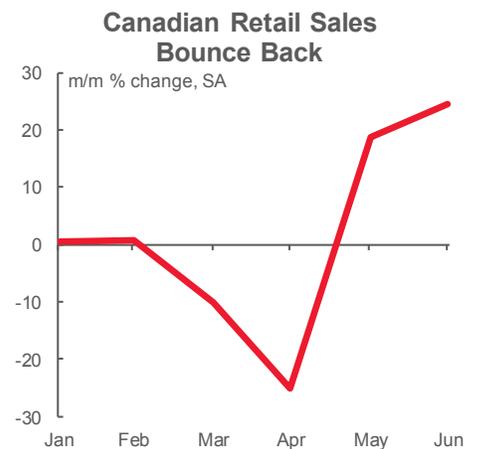
We only have provincial detail for May's tally. All provinces were up sharply that month but with **Quebec leading** (+33% m/m) because it reopened earlier. Ontario was up 14% m/m with Toronto up 8% as that province lagged. Look for role reversal into June when we get the breakdown as **Ontario's reopening should catapult it to the top of the pack** albeit with Toronto the main region held back from its stage 3 reopening plans this week. If all goes according to plan, that should save some growth for August onward.

We also only have sector details for May with no details behind the June headline sales guidance. Chart 3 shows the sector growth on a weighted contribution to

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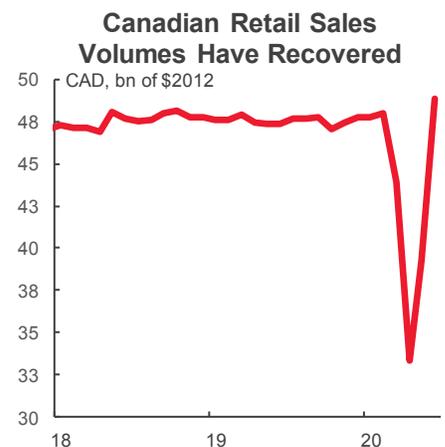
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

overall growth basis to show which types of spending were most responsible for the overall gain. **All major sectors saw higher sales except for food and beverage stores** (-2% m/m) led by a decline in supermarkets (-4.2%) that had gained earlier on pandemic spending.

Autos were up by 66.3% m/m which is generally consistent with a previously released 127% rise in new auto sales. That said, clearly the 67% rise in the value of sales at new car dealers is well below the pick up in auto sales volumes that we were tracking. Used auto sales values were up 94%, other vehicle dealers (atvs etc) were up 91% and parts were up 29%.

Furniture and furnishings were up 59% m/m in May. Sales at electronics/appliance stores were up 12%. Building materials and garden supplies were up 5.5%. Clothing and accessories gained 92.6% m/m. Sporting goods and hobby stores were up 101.2%. General merchandise stores were up 20%. Gas stations gained 17%.

While the monthly figures in dollar and volume terms have recovered to where February's tally was, it's still awful in terms of quarterly tracking. After about a 7% annualized drop in Q1, Q2 the value of sales fell -46% q/q SAAR in nominal terms including June's guidance. See chart 4.

Assuming that all of June's gain was in volumes gives Q2 tracking at -43% q/q SAAR for sales volumes after a 7% Q1 drop.

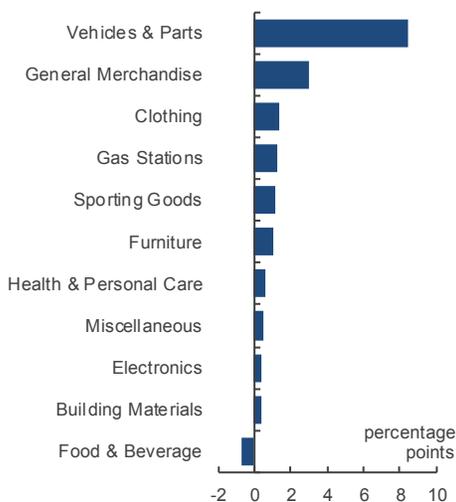
We can also infer something about Q3, despite obviously not having any data for July through September. Based solely on the hand-off from June and assuming no monthly growth in sales through Q3 in order to focus upon the effects of what we know about the way Q2 ended, we're looking at a massive pop higher in quarterly Q3 sales volumes. Chart 5 plots this separately because the over 110% estimate for Q3 q/q SAAR growth in sales volumes blows the axis. A record quarterly contraction may well be followed by a much larger record quarterly expansion especially as reopening plans continue to build in Canada.

So overall, the direction was broadly in line with my expectations for May and what I had indicated would be a double digit rebound in guidance for June sales, but for June I had been guiding around half the pace of what we ultimately got in the +24.5% preliminary guidance.

This is a very strong report. Some will say that a speedy recovery upon reopening is to be expected, but it would be going much too far to dismiss this report with such logic. Tell me one person who thought that a total shutdown that crushed sales would all be made up in two months of recovery. This is much faster and earlier than we or anyone else anticipated.

Chart 3

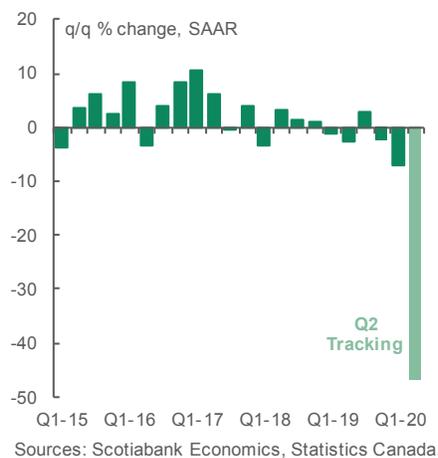
Weighted Retailer Contributions to May Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

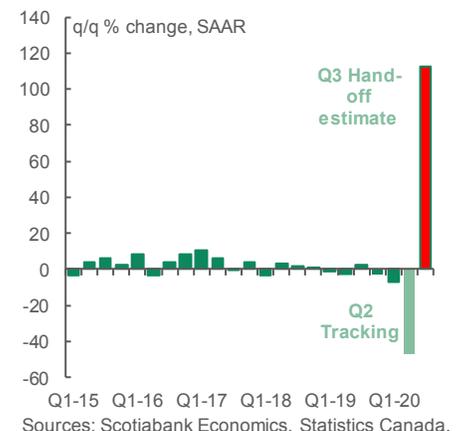
Canadian Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

Canadian Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

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