

Canadian Retail Sales Momentum Slows

- Retailers had a great June and Q2...
- ...but momentum was lost in July...
- ...especially in terms of core sales
- Q4 growth lies in doubt
- E-commerce is sharply higher...
- ...but still a modest share and skewed to domestic sources

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

Actual: 23.7 / 15.7

Scotia: 24.5 / na

Consensus: 24.5 / 14.9

Prior: 18.7 / 10.6

July guidance: +0.7%

Given that we already had a solid idea of where June's sales would land, the incremental information to markets is the soft guidance for July. It appears as if sales ex-autos and gas shrank in July. Overall, this will still translate into a massive gain in quarterly sales growth during Q3 over Q2, but it flags a caution with respect to momentum and how the math could evolve into the key holiday shopping season but obviously with a lot of hard data still ahead of us.

June's sales gain of 23.7% m/m was in line with the prior preliminary guidance from StatsCan that sales were tracking a 24.5% rise. That view had already been digested by markets that also knew about auto sales and gas prices and had limited sector tracking to go with StatsCan's guidance.

But the advance preliminary guidance that nominal sales were up by only 0.7% m/m in July in seasonally adjusted terms is the new information. Given that we're tracking a large gain in auto sales volumes during July of around 16% m/m ([here](#)) and that we already know that gas prices were up by about 4½% m/m in July, the implication is that the value of retail sales in July ex-autos and gas is tracking a drop of around 4.5%. There is high uncertainty around the exact estimate of course, given it assumes flat gas station volumes and flat auto prices and we have a very limited sense of other sales. Still, applying the headline guidance from StatsCan with the autos and gas evidence we have implies lost momentum across the rest.

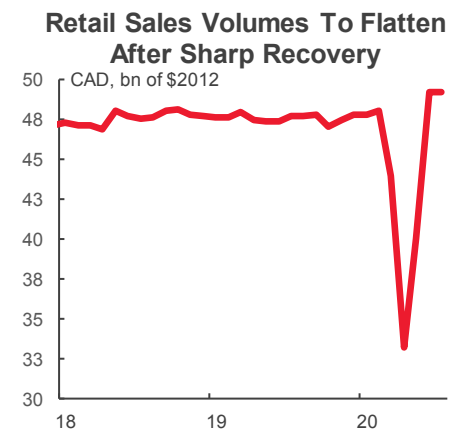
As for the rest of the details, here they are:

Sales volumes were up 22.9% m/m in June which suggests that most of the gain in the value of sales came through higher volumes. We don't know volumes for July but as guided in the prior paragraph, they likely posted little if any growth while core sales volumes likely fell considerably. Chart 1 shows the total 'v' shaped recovery—but also how momentum in total retail sales volumes likely flattened in July.

CONTACTS

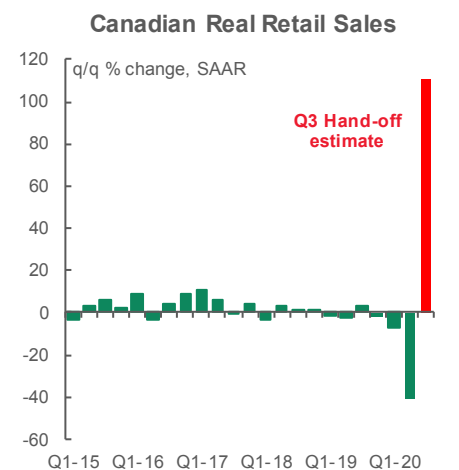
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Chart 1



Note: Based on StatsCan July advanced estimate
Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

By sector, higher gas prices and a resumption of kms driven drove gas station sales up 26.3% m/m in June. Autos and parts sales were up by 53% m/m with new car dealers up 63.8% m/m but bear in mind that sales at new car dealers are only up 1.7% y/y. Sales of furniture and furnishings were up 71% m/m, electronics/appliances were up 4.4% m/m and food sales were up 1.5% m/m. You must have bought a lot of wfh pyjamas in June folks, as clothing and accessories stores were up 142% m/m. Sporting goods/hobbies were up 65% m/m.

By region, the biggest gains during June were in Ontario (+33.8% m/m) and Toronto (+34.8%) despite Toronto's lagging reopening. Quebec was in second place at 23.5% m/m but Montreal was up by 35.8%.

The quarterly tracking of retail sales volumes now looks like chart 2 and the following numbers:

- Q1: -6.9% q/q SAAR
- Q2: -41% q/q SAAR
- Q3: +110.8% q/q SAAR

The Q3 tracking is despite apparent softness in July because of the way the math exited Q2 and slipped into Q3 with large gains in May–June that drove strong hand-off effects in Q3 growth. Vah-vah-vah-V! But the key is how momentum shifts by way of the quarterly math to potentially set up a slip in Q4 pending a lot of data still to come.

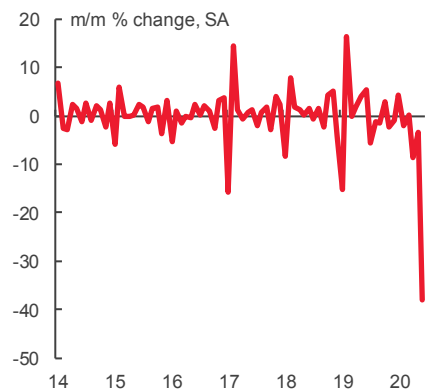
Also note that e-commerce is still just 5.5% of total retail sales, believe it or not. Still, e-commerce sales were up by 71% y/y in June. Nevertheless, e-commerce as a share of retail sales excluding things you don't normally buy over the 'net (like autos, gas, etc) and items you buy only in relatively small amounts over the 'net would be a considerably larger share. Autos and gas alone are one-third of total retail sales.

Retail sales only capture domestic sales, but it's simply not true they materially underestimate e-commerce because of this which had been a misleading argument offered by the BoC. Chart 3 shows the proxy for sales through foreign e-commerce websites in that it captures imports through trade data via couriers and Canada Post. The volumes have always been very small relative to total retail sales, and through the pandemic, they have been in freefall.

Charts 4 and 5 break down the weighted contributions to overall sales growth by sector in volume (chart 4) and value (chart 5) terms.

Chart 3

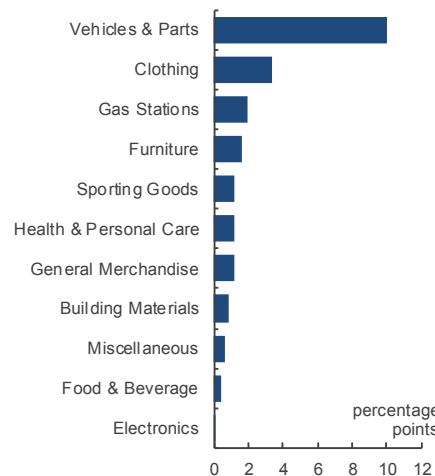
Canadian Global Imports Through Postal Services & Couriers



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

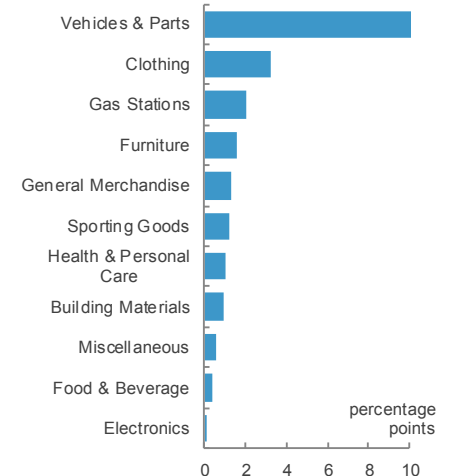
Weighted Retailer Contributions to June Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

Weighted Retailer Contributions to June Nominal Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

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