

## Canadian Consumers Are Keeping The Recovery Alive

- Q3 is still tracking a massive rebound in sales volumes
- A strong preliminary reading for August...
- ...helps to downplay concerns the consumer lost momentum
- Conflicting forces will guide the way forward into the holiday shopping season

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

Actual: 0.6 / -0.4

Scotia: 0.7 / 0.5

Consensus: 1.0 / 0.5

Prior: 23.7 / 15.7

### August guidance: +1.1 m/m

Canadian consumers are keeping the recovery alive. Retail sales grew in line with advance guidance for July and early guidance for sales in August was strong. In fact, if August guidance confirms slowing, then ship it in because at this pace I'll take slower any day. Softness in core sales during July was likely a function of distortions affecting a handful of categories rather than more fundamental concerns.

July sales growth of 0.6% m/m was similar to the guidance provided by Statistics Canada on August 21<sup>st</sup> when they indicated July would rise by 0.7% and it was in line with my estimate. **August advance guidance of 1.1% m/m in the total value of retail sales would be considered a robust gain in any non-pandemic year.** Most of that August gain was likely driven by higher volumes because we know that August CPI was only up by 0.1% m/m SA in terms of both headline and ex-food and energy although there was a little firmer price pressure in more retail-oriented categories.

Sales volumes continue to move above pre-pandemic levels as the retail sector in aggregate has witnessed a full recovery and then some (chart 1). That not all types of spending and channels have rebounded is true, but should not cloud one's understanding of the sector's overall rebound.

Q3 is tracking a very strong rise (chart 2). After a 42% q/q annualized drop in retail sales volumes in Q2 over Q1, Q3 is tracking a gain of 115% q/q SAAR. This assumes most of the August advance guidance was volume-driven and that September will be flat just to focus the math on the effects of what we know about Q2 and Q3 so far.

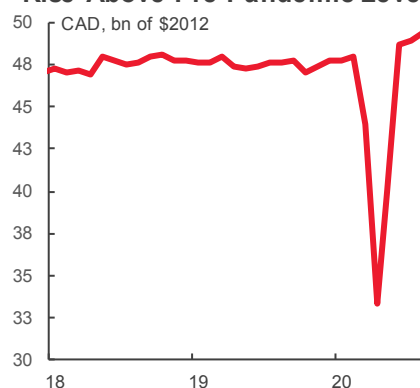
We don't have any details to go with the advance guidance for August. As for July's softness in sales ex-autos, I think that's explainable. Much of the softness came through building materials and garden equipment stores (-11.6% m/m), groceries (-2.1% food/beverage) and sporting/hobby stores (-8.8%). They are not bad reasons for softness. Seasonal adjustments might be messed up by the fact that pandemic hoarding likely brought forward food buying, the later Spring was distorted by closings that delayed activity at building/garden stores that delayed a spending surge that pulled forward from July and by many cancelled organized sports.

### CONTACTS

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Chart 1

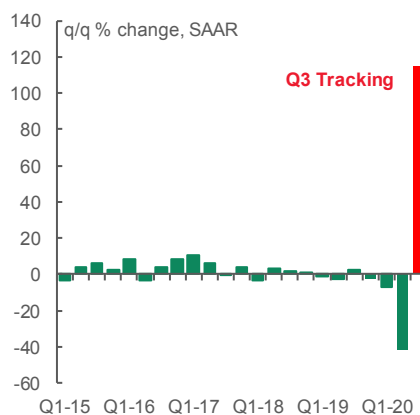
### Retail Sales Volumes Continue to Rise Above Pre-Pandemic Levels



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

Chart 2

### Canadian Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Chart 3 shows the weighted breakdown of contributions to overall growth in retail sales volumes by sector during July. In weighted terms, autos, clothing and gasoline plus ancillary sales at gas stations played the biggest roles in keeping sales growth in the black.

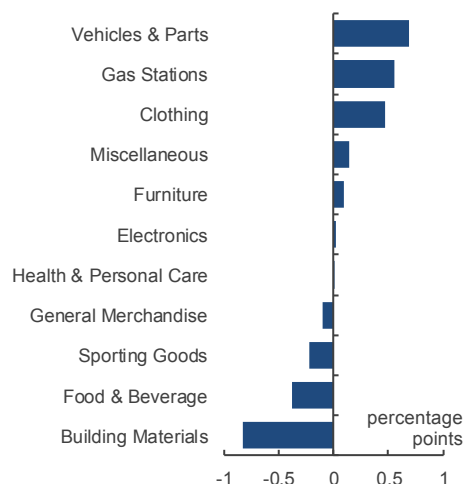
Other categories posted robust gains in July. Autos and parts were up by 3.3% m/m led by a 2.8% rise in sales at new car dealers but especially by an 11.5% gain in used car dealer sales with 'other' vehicles (atvs etc) up 3.2%. Furniture and furnishings stores saw sales going up by 5% led by a 14.7% rise in sales at home furnishings stores. Electronics and appliances were up a bit at 0.6%, clothing and accessories were up 11.2% m/m.

By province, July's rise was skewed toward Toronto's reopening effects that drove sales in that city up by 3.9% m/m. Manitoba saw a 1.9% rise. BC was up by 2.1% with Vancouver up 0.9%. Alberta registered a gain of 1.2%. Other provinces were either flat or, in the case of the east coast, generally lower. We don't know the regional breakdown for August yet, but the fact it was a solid rise works against the possible interpretation of July's numbers as simply based on, say, Toronto's lagging reopening.

In conclusion, if the outlook following the initial off-the-charts spurt of growth as economies reopened involves settling in upon a trajectory that would be considered robust in any other year then I'll take it. Of course the sector will slow compared to the torrid pace of recovery when the switch got flicked back on. But that doesn't mean solid growth can't follow in the wake of this period. We've forgotten that Canadians jacked up their savings to the tune of C\$350 billion over the first and second quarters of this year at an annualized rate which amounted to about one-third of total consumer spending in Q2. Savings always overshoot in a shock and if the release of this pent-up demand continues then it could still mean decent growth even \*if\* income supports wane. The wild card, of course, is up to you in managing covid-19 risk of curtailed re-openings and other effects.

Chart 3

### Weighted Retailer Contributions to July Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

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