

Canada's Full Retail Recovery

- Canadian retail sales are ~8½% above pre-pandemic levels
- Canada and the US are enjoying full retail recoveries
- Few retail sectors are still being left behind
- February sales beat, March guidance points to further growth
- Q2 sales have 'baked in' 12% growth over Q1
- April/May restrictions will likely knock back that tracking...
- ...before reopening and vaccines should drive renewed gains

Canadian retail sales, m/m % change in headline /ex-autos, SA, February with March guidance:

Actual: 4.8 / 4.8

Scotia: 4.0 / 2.5

Consensus: 4.0 / 3.5

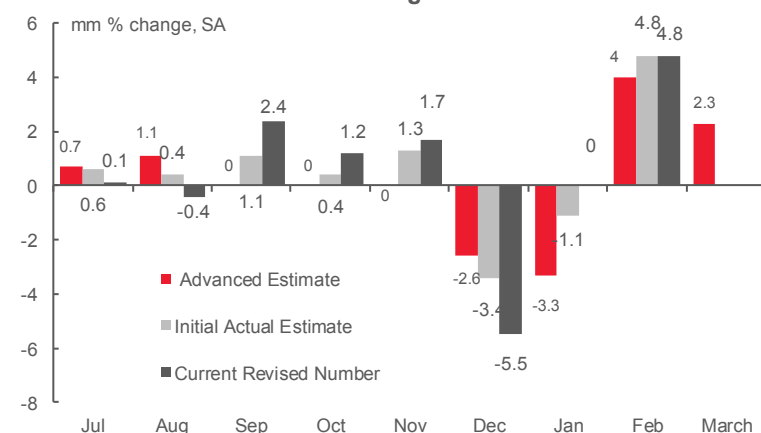
Prior: 0.0 / -0.1 (revised up from -1.1 / -1.2)

Advance March guidance: +2.3

Canadian retail sales surprised higher on a combination of three factors. One is that the advance guidance for February was revised up. Two is that there were significant revisions dating back to the start of the pandemic. Three is that advance guidance for sales during March was stronger than I had thought it might have been.

The full recovery in aggregate retail sales continues to transition toward outright expansion of the sector (chart 1). Canada's retail recovery is tracking in similar fashion to the US experience (chart 2). The value of total Canadian retail sales now stands 8.4% higher than where it was in February 2020 just before the pandemic struck. By comparison, US retail sales are 17% higher than February 2020.

Chart 4 Statistics Canada's Evolving Retail Sales Estimates



Sources: Scotiabank Economics, Statistics Canada.

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Chart 1

Canadian Retail Sales Levels

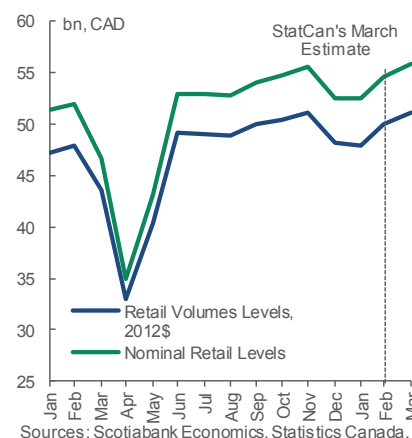


Chart 2

North America's Retail Sector Recovery

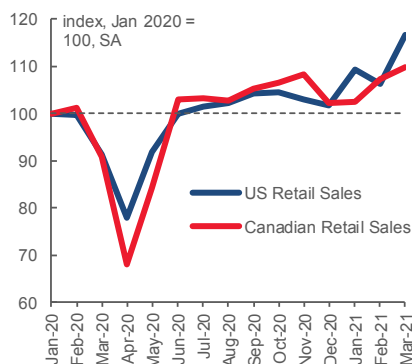


Chart 3

Canada's Retail Sales Recovery Since the Onset of the Pandemic

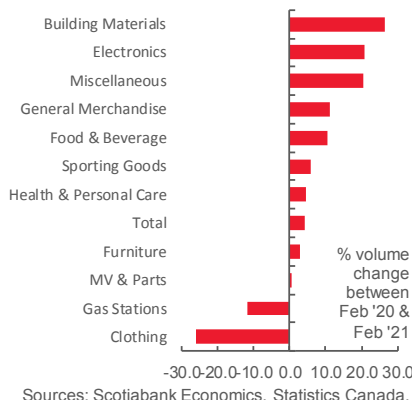


Chart 3 shows the somewhat uneven breakdown by sector. Most retail sectors are into outright growth mode with sales higher than they were before the pandemic. Gas and clothing sales are two exceptions which likely makes sense given work from home.

Personally I still think it's a mistake for monetary policy to focus upon the composition that is still leaving behind some types of spending rather than focusing upon the broad totals. Ditto for jobs if the hope for a rebound to February 2020 employment levels later this year comes to fruition.

February's advance guidance that indicated sales would be up 4% based upon an incomplete sample was surpassed by a 4.8% tally with the full sample.

Revisions that stretched back over multiple months had a particularly powerful effect on January. Recall that January started off with 'flash' guidance for a 3.3% m/m drop until the fuller sample indicated a drop of 1.1% m/m. Today, StatsCan revised that up to a flat reading for a swing of over three percentage points compared to the initial guidance which needless to say is breathtakingly large for a single month. Chart 4 shows the history of StatsCan's advance guidance initial estimates and current 'final' estimates.

Then along comes advance guidance for March sales that we're told are tracking a 2.3% m/m gain. We'll see what that ultimately looks like, but for now, it indicates that continued reopening effects through March buoyed the sector.

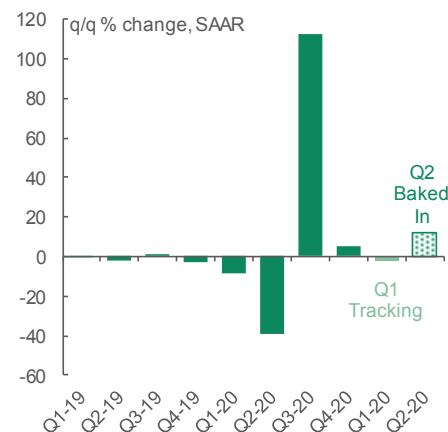
Of course we all know that April brought with it tighter restrictions because of the third wave of COVID-19 cases. That is likely to dampen the enthusiasm somewhat, but not necessarily for Q2 overall. That depends upon whether the COVID-19 curve bends enough and restrictions ease later and upon continued vaccine progress. It also depends upon whether consumers and retailers continue to find ways to spend and meet demand through online sales, home deliveries, curbside pick-up and limited traffic.

In fact, chart 5 shows tracking of quarter-over-quarter growth in retail sales volumes and how Q2 growth is likely to accelerate. Q1 slipped with sales volumes down by 1.75% q/q despite the strength over February and into March and that was because of the way momentum was lost over Q4 heading into the start of Q1 only to be partly made up by the way Q1 ended. Now the momentum argument points in the other direction by guiding a 'baked in' estimate for 12% q/q annualized and seasonally adjusted growth in sales volumes during Q2 assuming zero monthly change in volumes in each of April, May and June in order to focus upon the effects of what we know so far. Sales volumes accelerated during Q1 and transitioned into Q2 at a high level. There could still be powerful growth in sales volumes during Q2 even if April brings a setback. Further, if restrictions ease into the end of Q2 then it's possible the quarter exits on a high note, but we'll need to monitor the COVID case and vaccine curves for that.

Chart 6 shows which sectors drove the sales gain during February over January in terms of weighted contributions to overall growth. Multiple sectors played a role in driving strength. We won't get the break down of the flash guidance for March until the next report.

Chart 5

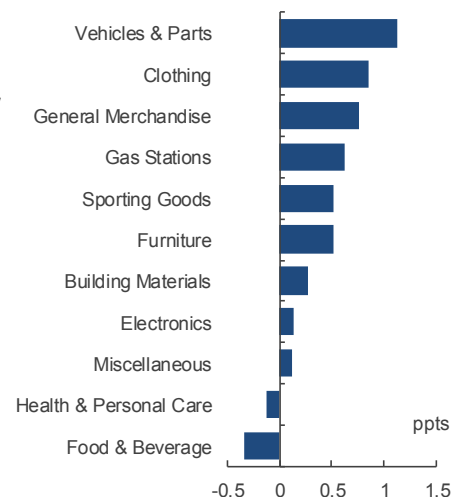
Canadian Real Retail Sales Growth



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

Weighted Contributions to February Retail Sales Volumes



Sources: Scotiabank Economics, Statistics Canada.

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