

Canadian Retail Sales Probably Understate Consumer Strengths

- A large retail sales gain occurred in June...
- ...with almost unbelievable surges in some components...
- ...and July's reported dip is based on a mysteriously low sampling rate
- Retail doesn't capture what many consumers returned to doing in June and July
- fwiw, retail sales have a large gain baked into Q3

CDN retail sales, m/m % SA, June:

Actual: 4.2 / 4.7

Scotia: 5.0 / na

Consensus: 4.5 / 4.5

Prior: -1.9 / -1.7 (revised from -2.1 / -2.0)

July 'flash' guidance: -1.7

The good news is that retail sales soared in June and only slightly missed estimates. The other good news is that despite a possible dip in July, there is a large gain tentatively baked into Q3. It's also the case that retail sales probably didn't capture many of the activities Canadians returned to doing over the months of June and July as third wave restrictions were relaxed. The caution, or bad news, is that data quality may not be so good which means leaving the door open to the possibility we don't have a great understanding of how retail spending is evolving of late.

Since the new information here is mostly about advance 'flash' guidance for July I'll focus on that first. The dip of 1.7% m/m in the value of sales is in one sense not hugely surprising in a mean reversion sense given the magnitude of the gain in June. That's if you trust the quality of the advance estimate.

On that note, StatsCan made no effort to explain why the response rate plunged to 38% last month when prior flash estimates have been based on around 60% response rates and the final response rate on the complete numbers usually lands around 90%. Chart 1 shows this flash response rate is the lowest since StatsCan began disclosing it and the previous lows were around times when COVID-19 cases were taking off and restrictions were being added. That wasn't the case in July as the economy opened up as reflected in stringency measures. So were retailers simply too busy in July to respond? Did only the ones who had time because their sales fell bother to get back to StatsCan whereas the busy ones passed on it or were late? Did holidays—at retailers and maybe StatsCan itself—affect the low collection rate? It would have been nice to see an effort to explain this in StatsCan's release mind you. Also note that whereas they often provide a qualitative hint at what drove the flash estimate in a sentence or two, this time they said nothing.

CONTACTS

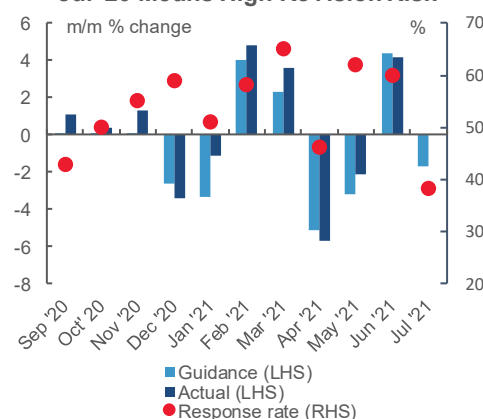
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Chart 1

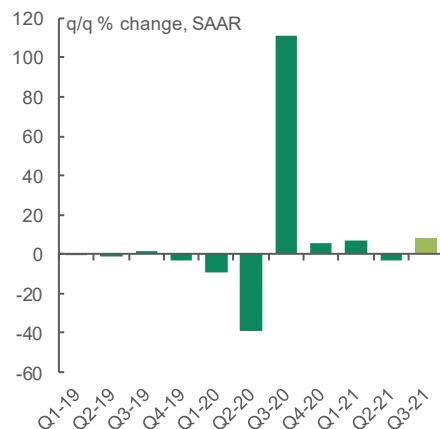
Lowest Recorded Response Rate for Jul '20 Means High Revision Risk



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Canadian Real Retail Sales Growth



Sources: Scotiabank Economics, Statistics Canada.

Frankly I'm almost inclined to ignore the July 'flash' estimate for now and it's not clear which direction the complete estimate will land a month from now relative to the flash estimate. Chart 1 also shows what happened to initial flash estimates versus the final reading the only other two times when the response rate was anywhere close to being as low as it was in July. The previous lowest response rate in September saw the initial flash estimate revised up from +0.1% m/m to 1.1%. The next lowest response rate in April 2021 took the final estimate a bit in the other direction (-5.7% m/m, -5.1% flash). Then again, some of the larger revisions to initial flash readings were in months with high response rates. Go figure.

So back to what we can more reasonably focus upon which was the June figures. All of the June gain was through higher volumes (4.1%) which I'm a bit surprised by given rising prices.

The June gain was not enough to save Q2 overall. The volume of retail sales fell 3.4% q/q SAAR in Q2 after a large 6.8% rise in Q1. The way the figures evolved over Q2 and handed off to Q3 'bakes in' 8.2% annualized growth in retail sales volumes into Q3 before we even get any data (chart 2). I'm treating July as a big unknown given the very low sampling rate but the risks to hard goods spending are likely skewed lower in Q3 while retail under samples the services side that people are spending more money on.

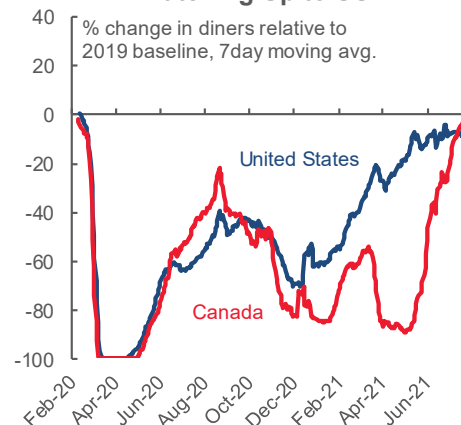
Again, like the US and UK, Canadian retail excludes most of the services that are reopening. Swing a club last month? Not in here. Ate out as captured in soaring restaurant reservations (chart 3)? Ditto. Finally ditched the flowbee or amateur snip and got a professional hair cut? Not here. Hit a patio for a few pints with friends? Same. Hopped on a flight, booked a hotel, went to a movie etc etc, all not in here. I went to a drive-in movie with my family for the first time in decades, also not in here. Whether we're talking US, UK or Canadian retail figures, treat them all with caution because the services part of consumer spending is generally not captured. This is old economy stuff when the only thing you spent money on were things you could touch. We don't know that it's an accurate reflection of how consumers spent their money last month. As written about the US and UK numbers, I think this is a global problem with retail figures understating the strength of the consumer to date.

Chart 4 depicts where we presently stand in the cumulative retail recovery with sales still above pre-pandemic levels. The chart incorporates preliminary guidance for July but only for the value of sales since a volume flash is not provided. Chart 5 depicts the cumulative recovery to date across components of retail sales up to June since we don't have a breakdown of the July flash estimate.

As for details, chart 6 shows what drove the gain in June in unweighted terms and chart 7 shows the weighted contributions. Some of the gains across individual types of retail sales were so powerful they naturally tend to be almost unbelievable. Clothing sales topped the list with a gain of 49% m/m, seasonally adjusted, not-annualized. Yep, 49%. My, you're a well dressed bunch assuming it's not still all w/ pajamas. Furniture sales soared 23% m/m so those are some pretty swank living rooms now since of course fancy clothes need nice sofas to sit on to complete the picture. Sporting goods sales were up 27.9% m/m so maybe the clothing they bought was about looking good on the golf course. Autos and parts were up as expected +2.7% m/m. Electronics and appliances fell 2.5% which doesn't really surprise me since I'm still waiting for a stove ordered back in March! Building materials and garden supply stores fell 3.1% (too late for the gardens...), food/beverage store sales fell 2.6%, gasoline stations sales were up 6% on a combination of higher prices and more driving, health/personal goods were up 1.5%, and general merchandise sales were up 7.4%.

Chart 3

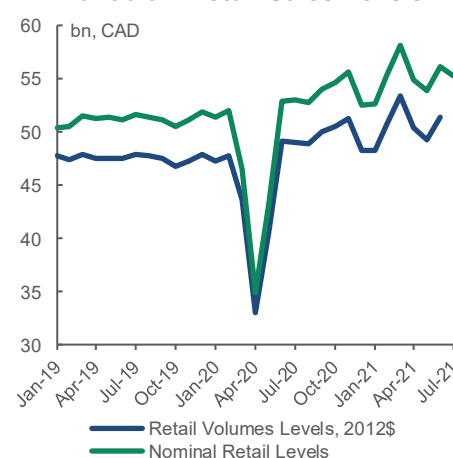
Canadian Restaurant Activity Catching Up to US



Sources: Scotiabank Economics, OpenTable.

Chart 4

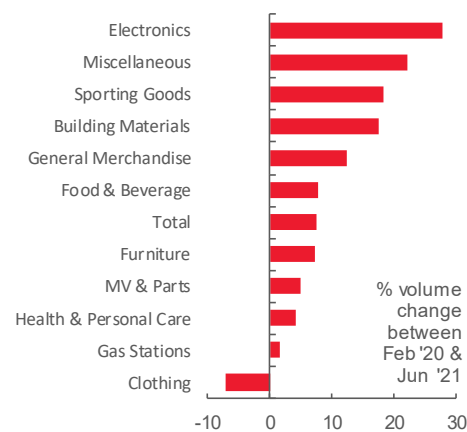
Canadian Retail Sales Levels



Sources: Scotiabank Economics, Statistics Canada.

Chart 5

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



Sources: Scotiabank Economics, Statistics Canada.

By province, sales growth was fastest in Nova Scotia (+16.3% m/m) but the 11.3% m/m jump in Toronto and 9.8% m/m overall in Ontario played a far bigger role in weighted terms. BC sales were flat (+0.2% m/m) but Vancouver was up 1.6%. Quebec was up 1.4% with Montreal leading (+2.4%); here's to retailers rooting for the possible return of the Nordiques! Sales fell in Newfoundland and Labrador, PEI, New Brunswick and Saskatchewan.

Now, cross your fingers on the Delta variant's effects and how long they may last. #mandatory may be the best hope along with a two tier system of access rights.

Chart 6

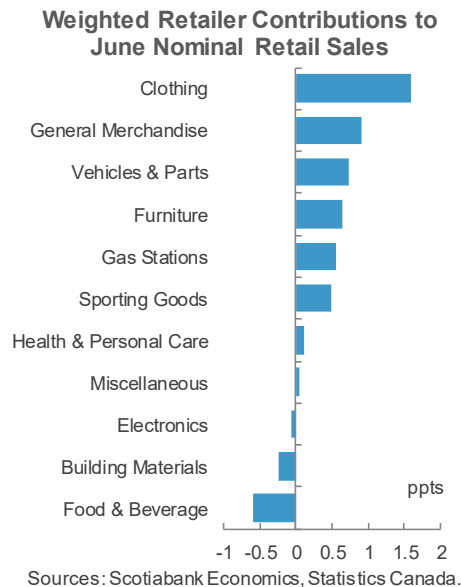
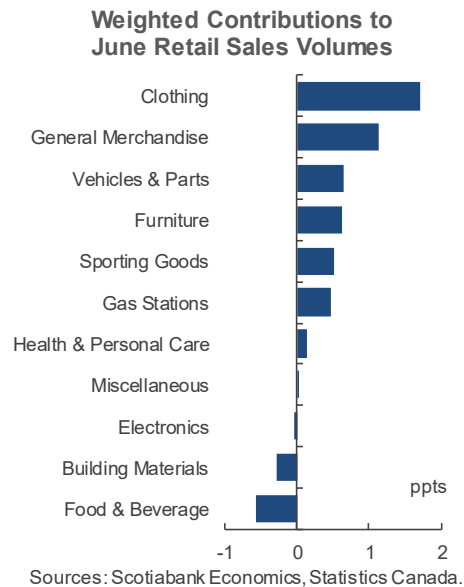


Chart 7



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