

Canadian retailers better placed to weather COVID third wave

April 28, 2021

After bouncing back from a winter slow-down, retail sales are poised to soften again in the spring as the pandemic’s third wave forces another round of restrictions. Retail sales rose 4.8% in February and 2.3% in March according to early estimates from Statistics Canada—figures broadly in line with [our own tracking](#) of spending over the period. We expect that momentum to flag in April as new containment measures are imposed, including another round of in-store shopping closures in Ontario.

Third COVID wave will weigh on sales in spring 2021, but not as heavily as last year

Still, we anticipate retail sales to hold up relatively well in the near-term, certainly compared to the deep plunge in purchases that took place in the spring of 2020. Lockdowns have not impacted all businesses in the same way, and underneath the healthy headline sales numbers some dramatic changes in consumer spending patterns have taken shape. Larger retailers have, as a general rule, been more resilient than smaller and medium sized players – though all have likely been able to expand their online sales.

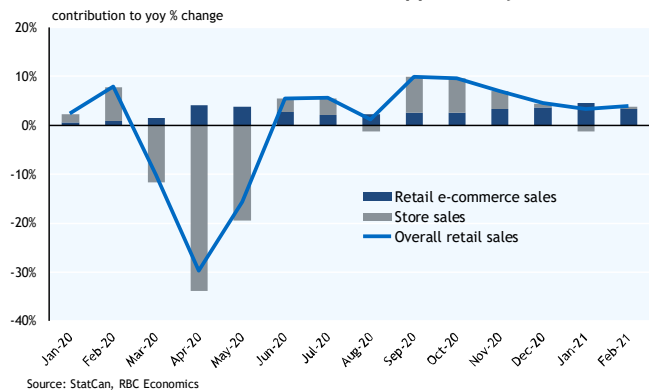
Restrictions to-date are not as widespread geographically as they were over the winter, and certainly are more limited in scope compared to Spring 2020. In-store shopping for non-essentials has once again been shuttered in regions including Ontario. But curbside pickup remains an option, as does online shopping. Retailers have, in many cases out of necessity, ramped up capacity to sell online and those changes have made the sector more resilient to in-store closures. In fact, e-commerce sales accounted for more than 100% of the year-over-year growth in retail sales on average over December to February. Our own consumer spending tracker indicates overall spending contracted, but remained slightly above pre-pandemic 2019 levels over the first half of April (controlling for an earlier Easter spending bump this year).

As in prior shutdowns, sales will likely return quickly once the threat of the virus and containment measures recede. Government supports continue to prop up household incomes and household savings are exceptionally high. And vaccine distribution continues to ramp up with the share of the adult population in Canada having already received at least one dose approaching 40%.

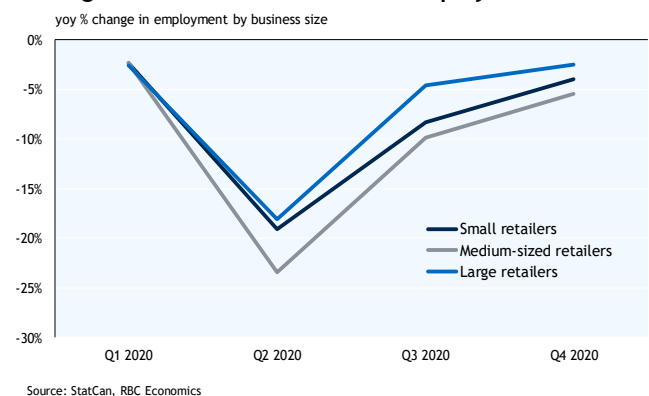
Larger retailers (relatively) less impacted during pandemic with more online sales infrastructure in place pre-shock

Efficiency, or the need to make every shopping trip count, has become a priority in the COVID era. With more varieties of goods on offer, that’s given larger retailers an advantage over small and me-

Canadian retail sales in 2nd wave supported by online sales



Larger retailers have lost fewer employees in 2020

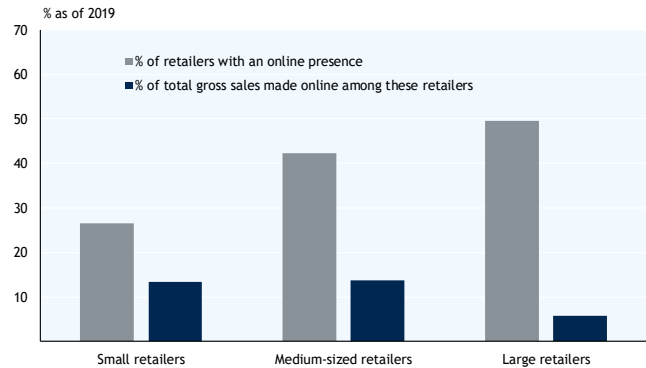


dium-sized retailers. While employment has declined across all enterprise sizes, job losses at larger retailers over the pandemic haven't been as steep.

StatCan reported that smaller retailers were less likely to have an online sales presence just before the pandemic hit than larger-retailers. Although those smaller retailers that did sell remotely leaned more heavily on online sales compared to larger retailers.

To counter those challenges, the recent [Federal budget](#) outlined support measures including micro-grants. These will help small and medium-sized businesses offset the cost of digital investment and offer the advisory expertise they need to formally adopt the technologies.

Retailers and online sales pre-COVID



Source: StatCan, RBC Economics

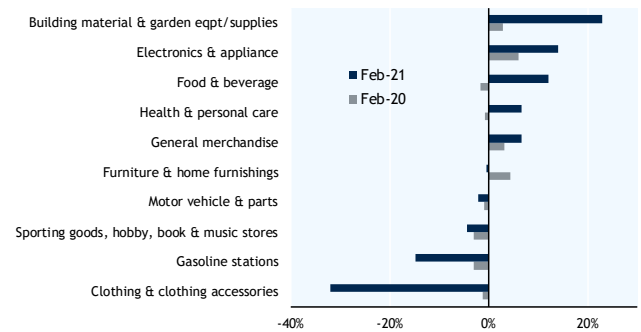
Consumer spending patterns changed drastically during the pandemic

Consumers have drastically altered their spending patterns in the past year. And that has had far-reaching consequences for sectors even beyond retail. A prime example would be spending on building material, which has been remarkably strong with housing markets surging and many of us staying closer to home. Increased demand globally has pushed lumber prices up more than 60% from a year ago. Meanwhile, as more meals and social time take place in the home, purchases of electronics, appliances and groceries have also soared. Higher demand for electronics has triggered a global shortage of semi-conductors. That in turn is disrupting auto production, with early reports of spillage over to smart phones, TVs and other home electronics production.

By contrast, clothing purchases have softened, falling more during lockdowns and recovering less when stores re-opened. And households are still driving a lot less. The volume of gasoline sales (excluding the impact of price changes) was down around 12% from a year ago in February. Still, near-term containment measures are unlikely to weaken sales much further. And the eventual reopening of the economy, contingent on effective vaccine rollout, should allow for a more balanced rebound in the demand across the product spectrum, for smaller and larger retailers alike.

Consumer spending pattern dramatically altered by COVID

yoy % change in 3-month rolling average of retail sales volumes



Source: StatCan, RBC Economics