Cdn. Retail Sales (Jan)

The retail industry is now feeling the severe pain of COVID-19-related shutdowns, but even before the crisis gripped the economy, sales hadn't looked all that healthy. Retail sales matched our forecast for January, rising 0.4%, with a rebound seen in both auto and gasoline sales. However, that increase was all due to prices, with volumes falling 0.3%. The decline in sales volumes exacerbates a weak trend in real retailing which has now seen it grow a paltry 0.3% over the prior year. As a result, the latest retail sales report continues to suggest that households were already exhibiting a degree of cautiousness ahead of COVID-19.

Statistics Canada reports that respondents to the February survey of retailing noted that businesses were being impacted during the month by the fallout from the virus. However, a much sharper drop-off in sales will likely be seen in March, when a number of large and small retailers shut their doors and far more people have been employing social distancing to slow the spread of the virus.

One area of retailing that will, however, see a boost to sales in the months to come is e-commerce. Statistics Canada reports that online sales grew almost 10% in the year up to January, but that doesn't even include all of the e-commerce purchases Canadians make. So, while e-commerce sales will continue to rise, it's important to remember that the retailing report doesn't capture money spent at some large American online retailers.

Retail sales aren't going to look pretty in the months to come, but Canadians still have many expenditures that they can't avoid including, but not limited to: housing, food, utilities and telecommunications. That's why the targeted fiscal stimulus measures taken to help those most vulnerable to an income shock from the crisis were so important. But there could still be more to come. Minister Morneau identified the stimulus package as “Phase 1”. Furthermore, Governor Poloz still has room to cut interest rates and potentially use the unconventional tools he has at his disposal. On the latter, look for the Bank of Canada to further reduce rates in the weeks to come.
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