The closure of many storefronts brought the retail sector to its knees in April, but a relaxing of restrictions allowed it to pick itself back up in May. While that still left the sector well off its pre-COVID highs, the pace of recovery actually accelerated in June according a sneak peek provided by Statistics Canada. The strong momentum in retail sales could, however, fade in the second half of the year as government support begins to wane and pent-up demand for purchases is satisfied.

Retail sales rose 18.7% in May, a sharp rebound from the almost 35% drop seen over the prior two months. Auto sales drove the biggest gains in retailing, rising 66% in May, but increases were seen across the board, with 10 out of the 11 major categories gaining ground. Still, some categories were bigger winners than others. Clothing stores added 93% more sales in May than in April, while sporting goods, hobby, book and music stores increased more than 100% and furniture and home furnishings retailers gained almost 60%. These categories represented retailers that rely heavily on bricks and mortar, and thus felt an outsized benefit from the easing of restrictions.

As expected, grocery stores gave back more ground in May, after seeing a spike in March tied to panic buying and stockpiling. That’s likely to continue as restaurants across the country have been able to open patios, and some are now even able to serve customers indoors, meaning there’s less incentive to exclusively prepare food at home for many households.

Statistics Canada also published an advance estimate of June retail sales, which showed a further increase of 24.5% from May. That would leave sales ending the first half of the year just off the highs seen in February. While the patterns haven’t been exactly the same, it’s a similar story in other parts of the world. The question is whether that momentum can be sustained in the second half of the year. Governments around the world provided enormous stimulus packages to support households, but the desire to continue aid on that scale seems to be waning. Moreover, some of the pop in sales might represent households satisfying pent-up demand for purchases they simply could not make during parts of March and April.
**Forecast Implications** — With household spending accounting for more than half of the Canadian economy, it’s a relief to see such a sharp recovery in retail sales. The data continue to suggest that Canada avoided the worst-case scenario for the first half of 2020, and actually tracked closer to some of the most positive outlooks, with the help of fast and aggressive government aid. That said, government restrictions will be in place for an extended period of time in one form or another, meaning the economy can’t fully bounce back. If government income support begins to wane, the pace of recovery might slow as the true effects of an elevated unemployment rate begin to be felt.