# OBSERVATION

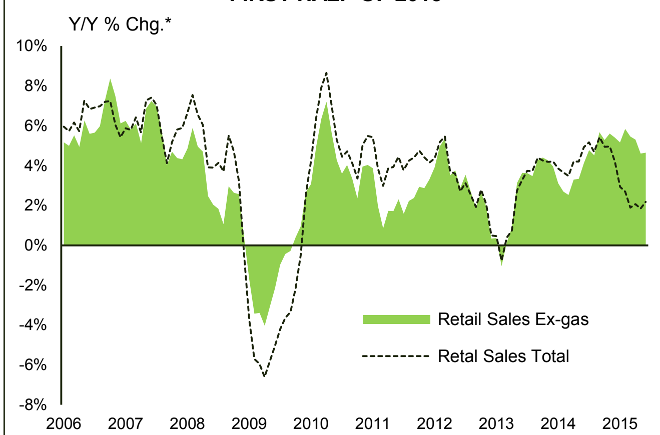
## TD Economics


August 21, 2015

# CANADA'S RETAIL SECTOR MOSTLY UPBEAT IN FIRST HALF OF 2015

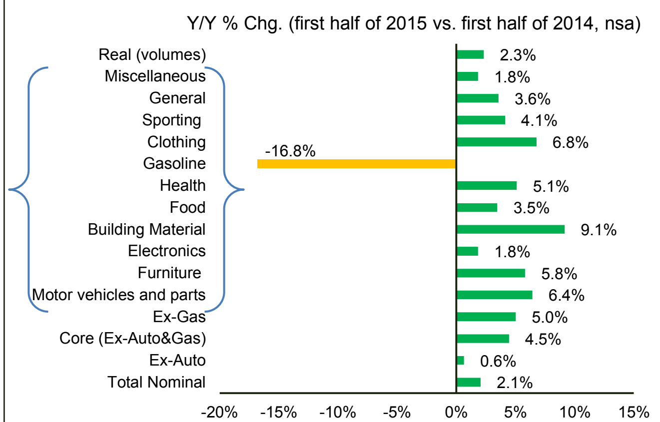
- The recent decline in oil prices has renewed concerns about the prospects for the Canadian economy. But often left out of the discussion is the resiliency of the Canadian consumer, whose spending makes up about half of Canadian output. With the release of the June 2015 retail sales numbers earlier today (see commentary), we now have a fulsome picture of how Canadian consumption stacked up in the first half of 2015. In contrast to the weakness seen in business investment and trade, the story is a positive one.
- Along with lower oil prices has come a decline in the price of gasoline. The price of regular gasoline Canada-wide averaged $1.08/L during the first six months of 2015, a staggering 19% decline from an average of $1.33/L over the same period in 2014. Sales at gasoline stations fell in kind, dropping by 16.8% (on a non-seasonally adjusted basis). This acted as a drag to overall sales activity, and Canada-wide nominal sales grew only 2.1% compared to the same period last year. When stripping away price effects, retail sales volumes held up better than nominal, growing at 2.3%. This points to the profound impact that lower energy prices have had on retail trade more broadly.
- But the details tell a more upbeat story. When excluding sales at gasoline stations, consumers in most regions still spent at a decent pace throughout the first half of 2015 (Chart 1). Indeed, sales at all other store types combined grew by 5.0% in the first half of the year, led by sales at building material (9.1%) and clothing (6.8%) stores (Chart 2).
- Placing the performance of nominal (2.1%), real (2.3%) and ex-gasoline (5.0%) sales side by side, it is clear that while falling gasoline prices have dragged down headline growth, other rising prices (as related to the pass-through effects of a past depreciation in the Canadian dollar) have likely helped lift sales for the remaining retailers. We are mindful that some of the more upbeat performance of ex-gasoline sales may be coming at the expense of tighter profit margins, as retailers likely share some of the higher costs of imported products with consumers.
- The fall in oil prices has taken a particular toll on the oil-producing provinces of Saskatchewan and Alberta. In these regions, nominal retail sales declined -3.4% and -2.6% respectively, in the first six months of 2015. While these numbers may seem alarming on the surface, much of this

**CHART 1: EX-GASOLINE SALES HEALTHY IN FIRST HALF OF 2015**




Source: Statistics Canada. *3-month moving average.

**CHART 2: MOST RETAIL CATEGORIES SAW GROWTH**




Source: Statistics Canada.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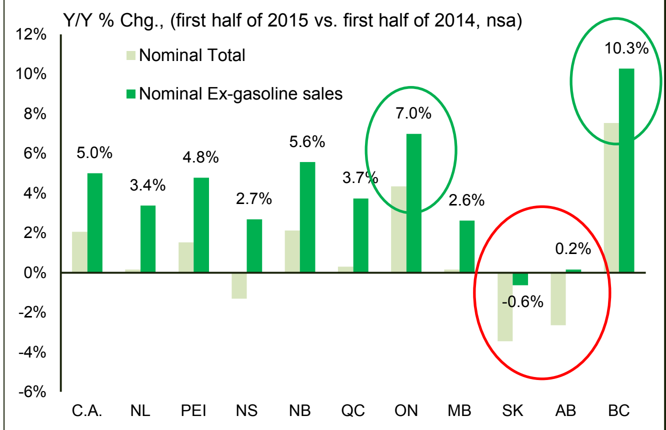
was a gasoline price story. After stripping away gasoline sales, the only province in Canada to have seen a significant decline was Saskatchewan, at -0.6% (Chart 3). This is likely tied to the province's labour market performance, which started off the year on a weak note. Sales activity was more resilient in Alberta (+0.2%), despite the fact that that oil and gas sector makes up a larger share of its economy. Much of this can be tied to a rise in (mostly public-sector) employment. Nevertheless, employment tends to be a lagging indicator, and the second recent dip in oil prices points to tougher times ahead for oil-producing regions (including Newfoundland and Labrador).

- Consumers in the rest of the country were in much better spirits during the first half of 2015 (Chart 4). Sales growth was spearheaded by British Columbia and Ontario, representing half of Canada's sales this year, where ex-gasoline sales grew 10.3% and 7.0%, respectively. This is the best first half performance in retail sales (ex-gasoline), for these provinces, in the past decade (Chart 5).
- Looking at B.C. in particular, the hot housing market continues to bolster retail sales activity. Sales grew an astonishing 29.5% at building material stores and 17.7% at furniture stores. Further, with auto sales reaching record numbers, sales at motor vehicle and parts dealers (+10.8%) made the biggest contribution to B.C. sales growth in the first half of the year. Auto sales were also the biggest contributor to retail sales growth in Ontario.

## Bottom line

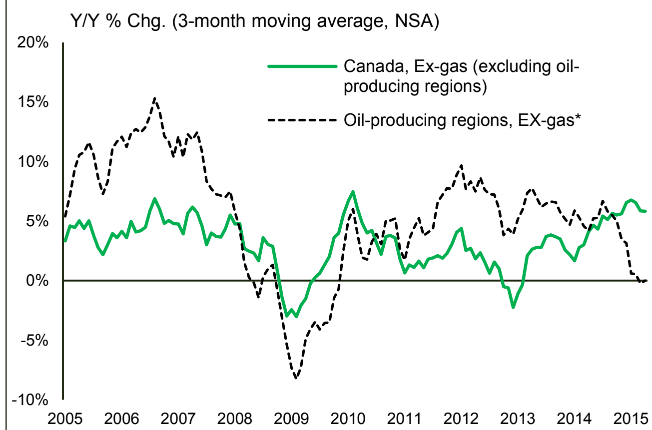
- A number of factors have helped buoy ex-gasoline sales this year. Savings from low gasoline prices are sifting through to other retailers and the low Canadian dollar is helping contain more spending within Canada, while also attracting more spending from abroad. More importantly, low interest rates are supporting the purchase of big ticket items such as cars or those related to housing.
- In the near term, household spending can be expected to pick up as Canadian families spend the windfall received from the federal government in the form of enhanced Universal Child Care Benefit payments. Looking further ahead, we continue to expect oil prices to recover, but at a much more gradual pace than previously thought. This advance should help narrow the gap between headline and ex-gasoline sales. But the gradual rise in oil prices won't be enough to lift up business investment this year. As such, bleak employment prospects for Canada's oil-producing regions suggest that the current provincial trends are likely to remain in place for the rest of the year.

**CHART 3: SALES GROWTH SPEARHEADED BY BRITISH COLUMBIA AND ONTARIO**



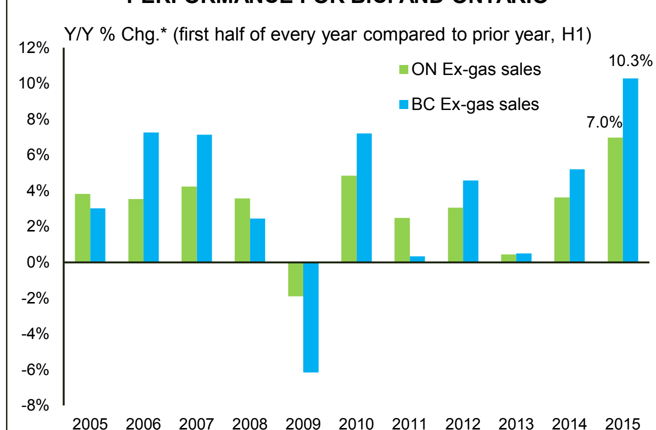

Source: Statistics Canada.

**CHART 4: EX-GAS SALES IN NON-OIL-PRODUCING REGIONS PACING WELL**




Source: Statistics Canada. *Alberta, Saskatchewan, Newfoundland and Labrador.

**CHART 5: H1-2015, BEST EX-GAS SALES PERFORMANCE FOR B.C. AND ONTARIO**




Source: Statistics Canada. *Provincial ex-gas sales can only be calculated from 2004.