



COVID-19

HOW COVID-19 IS CHANGING THE RETAIL SECTOR

March 2021

EDC Economics

Canada

 **EDC**

SUMMARY

- The COVID-19 pandemic has disrupted many retail business models, **rapidly accelerating the shift to e-commerce** and the decline of traditional brick-and-mortar retail stores. New consumer spending habits and business practices are expected to persist beyond the current crisis.
- After the first wave pandemic lockdowns eased, **consumer spending on goods was strong**, showing a rapid “V-shaped” recovery. **However**, indicators for recent months suggest **the second wave of lockdowns has slowed consumer spending and reduced retail employment**.
- Looking across retail categories, the main “winners” include (particularly those with strong e-commerce capabilities):
 - home and garden;
 - groceries;
 - electronics and appliances;
 - home furnishings;
 - health and personal care;
 - food and beverage;
 - sporting goods.

Those hardest hit categories include:

- clothing and shoes;
 - jewelry and luggage;
 - gas stations; and
 - auto dealers.
- **Output and employment:** Retail sector output in Canada has performed remarkably well during the pandemic, while employment in the sector has been hit hard. In the near- to medium-term, this shock may increase productivity and output per worker in the sector.
- **Supply chains:** In some cases, segments that were doing well in 2020 (e.g., sporting goods) have recently experienced reduced sales due to supply chain delays. In other cases, such as food, supply chains have generally held up well. Canada’s retail sector had to recover from pre-pandemic blockades of rail routes, adding to the initial shock in March 2020. Under such circumstances, most goods have gotten through to retail establishments in major populations centres of the country.
- **Variation by firm size:** A key challenge has been small firms that traditionally relied on customer foot traffic in brick-and-mortar establishments. Without a loyal following that could link to such operations via e-commerce channels, many of these establishments face an existential threat. By contrast, large-scale box stores have fared well due to e-commerce systems, broad name recognition, and in some cases, fewer lockdown restrictions.
- **Outlook:** Globally, as economies begin to emerge from renewed lockdowns and the COVID-19 vaccine rollout gains pace, growing consumer confidence and accumulated household savings are expected to bolster the retail sector’s recovery, including discretionary spending. A key disruptor to the outlook would be another surge in cases leading to renewed lockdowns in the months ahead.

GLOBAL CONTEXT

The COVID-19 pandemic led to rapid changes in consumers' shopping habits, and in business practices to accommodate physical distancing requirements and other restrictions on in-person, in-store activities.

The pandemic initially put the global retail sector into a tailspin as consumers living under stay-at-home orders and lockdowns paused spending on all, but the most essential goods. The shutdowns and restrictions varied slightly across regions of the global economy:

- In China, they were slightly earlier and more severe in January to March.
- In Europe, they began at the end of February.
- In North America, they were in place in March to mid-May 2020.

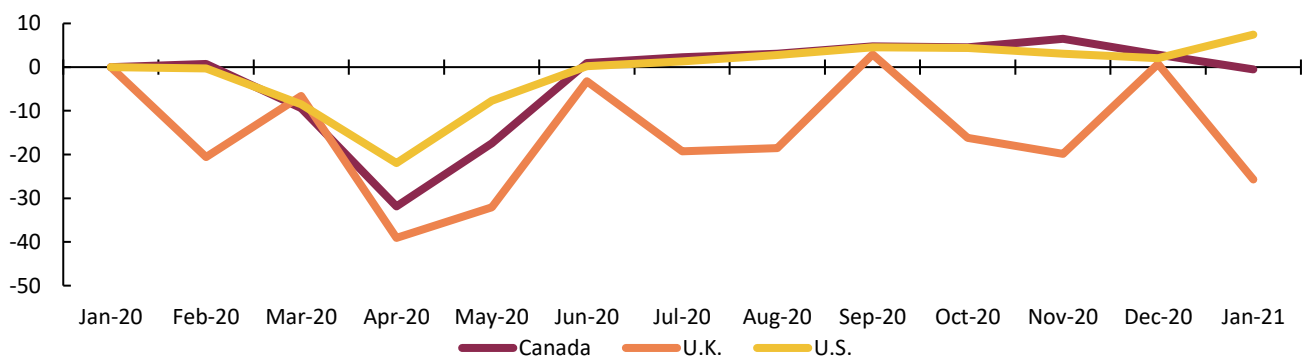
These virus containment measures resulted into temporary store closures, furloughed staff, and often raised costs owing to additional worker safety protocols, as well as myriad supply chain disruptions for the sector.

Globally, there was a strong rebound in activity after the first lockdowns eased. Nonetheless, across the retail industry, there remain considerable concerns that some retailers—especially small, independent businesses—will shutter permanently, resulting in rising bankruptcies and restructurings in the wake of the pandemic. Such closures could potentially trigger increased unemployment, constraining consumer spending and potentially add to fiscal stress at federal and provincial levels.

Early in the crisis, rating agencies made a rash of downgrades in the retail space, as pre-existing weaknesses were exacerbated by growing debt (in some cases, had accumulated prior to the pandemic), an inability to meet commercial rent payments and plummeting revenues due to the pandemic.

Retail sales

Percent change since January 2020, local currencies



Sources: EDC Economics, Statistics Canada, Office for National Statistics, Census Bureau.

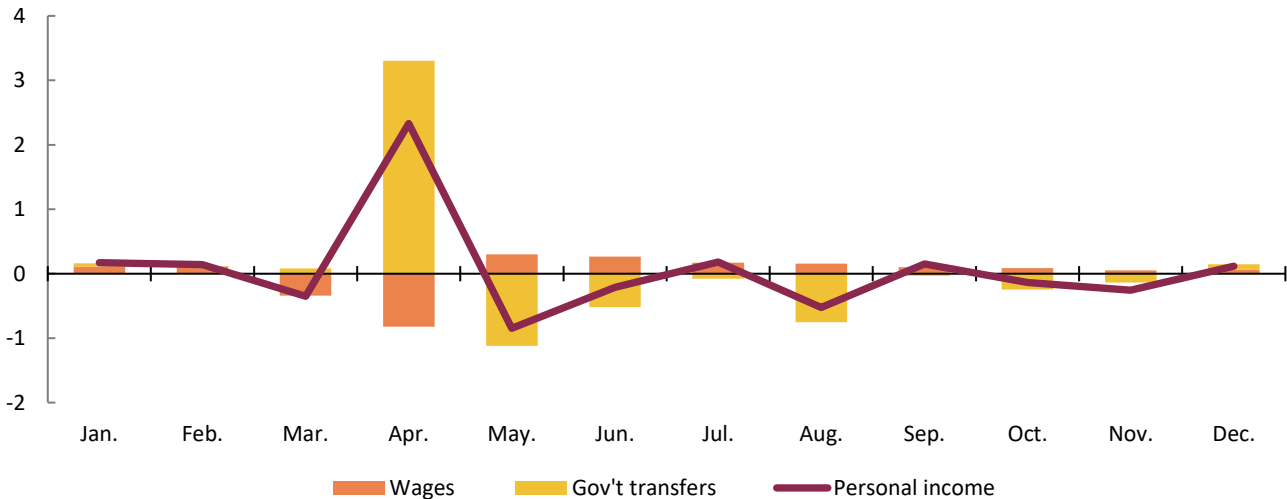
CANADA’S RETAIL SECTOR PERFORMANCE

Canada’s performance has largely tracked the pattern in the United States market until recently, while showing greater strength than in the United Kingdom, which was dealing with COVID-19, as well as disruptions due to Brexit. Canada’s performance has been reasonably consistent in relation to peer countries, and in some cases, comparatively robust. On the other hand, many small retailers are at risk of failure with fiscal support, and this support has helped to only partially offset what otherwise would have been a more negative scenario.

Canadian retail exports, and across the consumer goods sector in general, are primarily destined for the American market. In the U.S., retail spending made a strong comeback early in the crisis, fuelled by government transfers, which more than compensated for losses in aggregate wage income in April. Canadian exports of lumber, household furniture and appliances have all performed well in 2020, alongside a strong U.S. housing market supported by low mortgage rates, and households seeking additional space in single-family dwellings.

Monthly change in U.S. personal income

Trillions of dollars

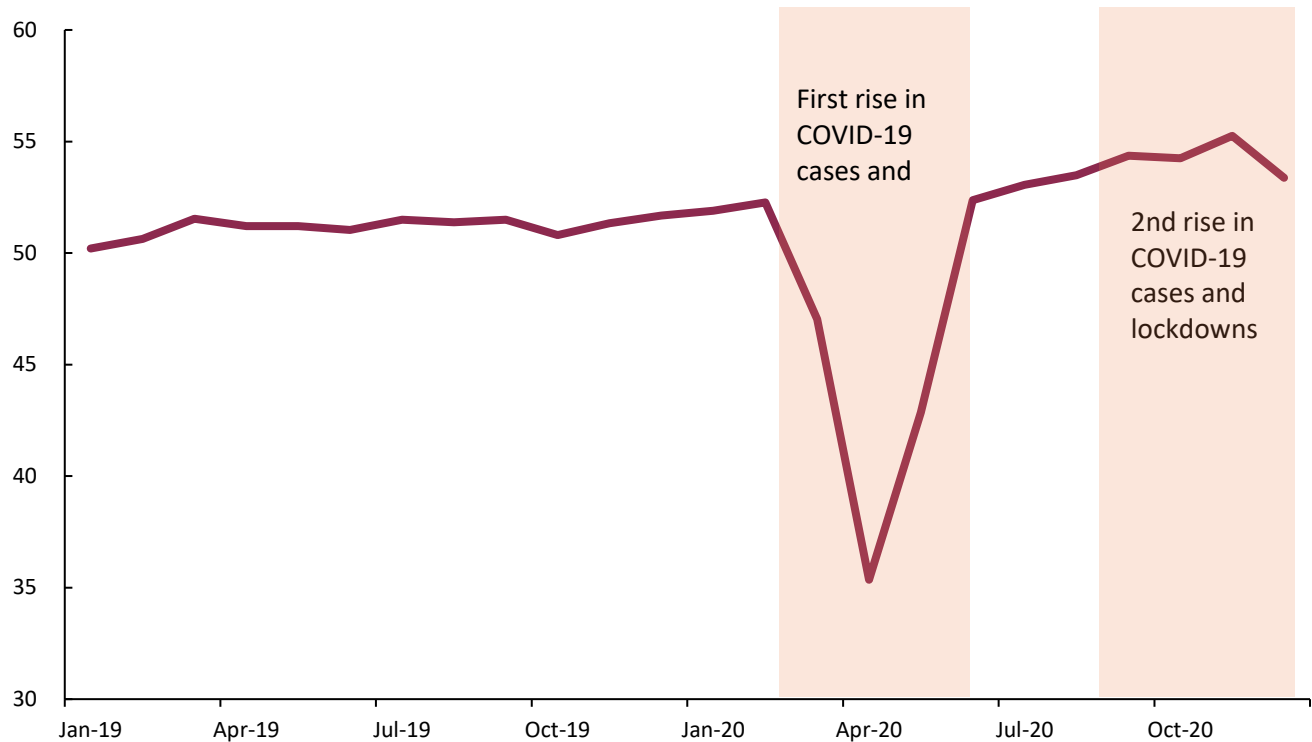


Sources: EDC Economics, Census Bureau, Bureau of Economic Analysis.

Canadian retail sales took a hit during the first lockdowns in March-April 2020, rebounded quickly, and then began to drop off once again in the second lockdowns in December.

Canadian retail sales

Billions of current dollars



Source: EDC Economics; Statistics Canada.

With the resurgence of COVID-19 cases in Canada, provincial governments began to reintroduce physical distancing measures, adversely affecting the retail sector. Statistics Canada reported that approximately 15% of retailers were closed during December, potentially restraining sales during a period when retailers often generate up to 40% of their annual revenues (e.g., November to December). After reaching a record-high in November 2020, Statistics Canada reported a drop of 3.4% in December and advanced estimates for January 2021 suggest a further decline of 3.3%.

With people spending more time at home, the clear winners, so far, have been in categories such as:

- home and garden;
- groceries;
- electronics and appliances;
- home furnishings;
- health and personal care.

Other data shows strength in beverages, sporting goods and miscellaneous categories. The categories that have been hardest hit include:

- clothing and shoes;
- jewelry and luggage;
- gas stations;
- new cars, with negative effects in motor vehicle parts and dealerships until late 2020.

Canadian retail sales, by category

% December 2020 versus February 2020

Other motor vehicle dealers (e.g., motor homes)	44.9%
Building material and garden equipment and supplies dealers	19.7%
Supermarkets and other grocery (except convenience) stores	14.8%
Grocery stores	14.1%
Electronics and appliance stores	13.9%
Home furnishings stores	11.9%
Food and beverage stores	11.8%
Automotive parts, accessories and tire stores	11.1%
Specialty food stores	9.8%
Personal and health-care stores	9.0%
Used car dealers	7.2%
Convenience stores	5.3%
Furniture and home furnishings stores	3.9%
Beer, wine and liquor stores	3.6%
Overall	2.0%
General merchandise stores	1.9%
Furniture stores	-0.3%
Motor vehicle and parts dealers	-1.1%
Automobile dealers	-5.1%
New car dealers	-6.3%
Sporting goods, hobby, book and music stores	-11.3%
Gas stations	-13.9%
Shoe stores	-14.4%
Jewelry, luggage and leather goods stores	-22.1%
Clothing and clothing accessories stores	-27.0%
Clothing stores	-29.4%

Source: EDC Economics; Statistics Canada.

The rise of e-commerce

In spring 2020, temporary store closures and physical distancing measures made online shopping an attractive alternative to in-store shopping. Companies that had a strong online sales presence before COVID-19, such as Walmart, Canadian Tire and Amazon, have further increased their shares in the market, while Shopify has aided smaller companies' online sales. Many retailers are rapidly investing in e-commerce platforms to improve their operations and make their sales more resilient to future in-person restrictions. Retail e-commerce sales in Canada hit a record high of \$4.7 billion in December 2020, and were up 71% in 2020. These dynamics are also

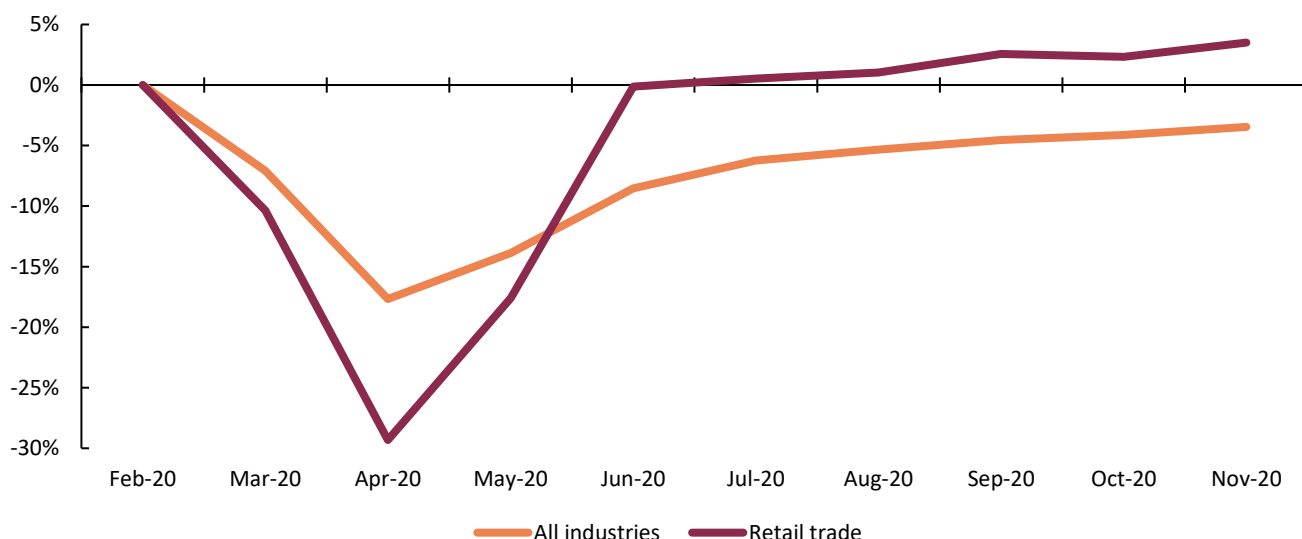
driving demand for greater data analytics in the sector to better identify consumer spending patterns and retail trends.

Output

Much like other parts of the world, Canada's retail sector was hit significantly harder than the overall economy during the initial lockdowns in March to May 2020, at a time when government restrictions prevented many retail businesses from operating. Output in the retail sector was down almost 30% by April, a drop that was roughly twice as large as that for the overall economy. But after the initial lockdowns were eased, consumer spending came roaring back in a "V-shaped" recovery that surprised many. By June 2020, retail gross domestic product (GDP) was back to pre-pandemic levels. And by November, retail GDP was up 4%, exceeding the tepid rebound in the overall economy, which remained 4% below pre-pandemic levels.

Canadian GDP: Retail versus the rest

% change relative to February 2020



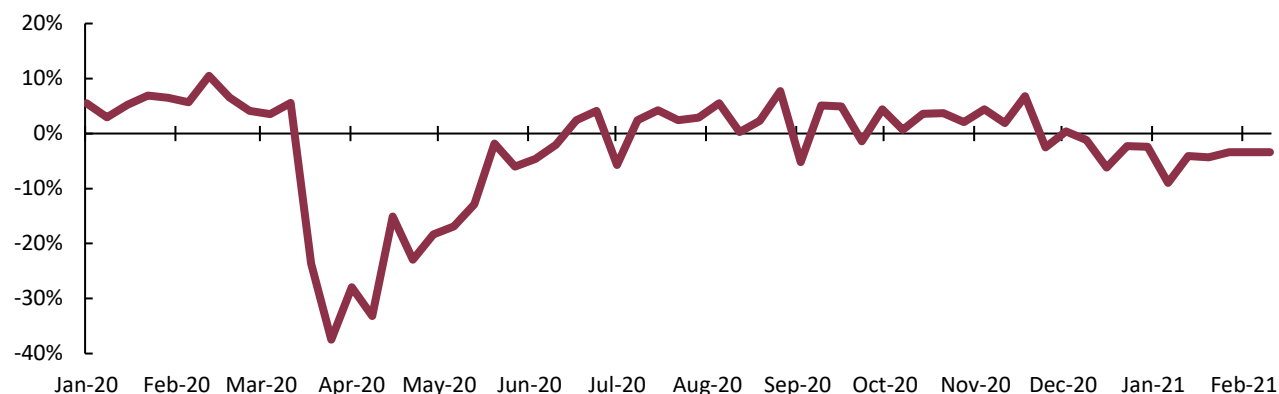
Source: EDC Economics; Statistics Canada.

Some of these dynamics reflect a "catchup" period, as consumers made up for lost time, making purchases that had been held back during the lockdowns. Considering the restrictions on spending on in-person services, consumers tended to shift their spending toward online purchases of goods. The recovery in the retail sector also reflects the benefits to households of government income supports. While many households and small businesses paid down debt with funds received from government support programs, others purchased goods. In many cases, retail improvement also reflected a substitution effect, with people spending more on goods that they otherwise would have spent on services (e.g., international travel).

Given the lags in official GDP statistics, we have more updated information. Unfortunately, the highest-frequency indicators we have (such as RBC's consumer spending tracker below) are suggesting that consumer spending has lost steam, and has slowed noticeably since the end of November.

RBC Consumer Spending Tracker

Year-over-year, percent change



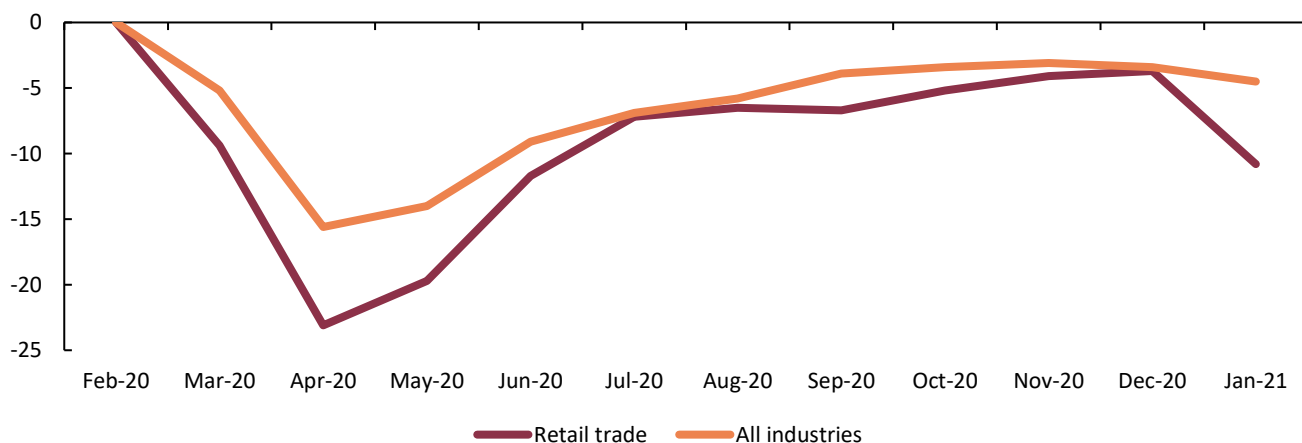
Source: RBC Consumer Spending Tracker, weekly

Employment

The story for employment differs somewhat from the story on retail sector output. Retail jobs were hit much harder than the overall economy. But the V-shaped rebound that occurred for retail output hasn't been matched on the employment side. Here, there are winners and losers, with delivery services up, but sales and related support personnel down. These patterns have only worsened with the second wave of COVID-19 cases in Canada in late 2020. As government restrictions became stricter with second lockdowns, there's been a significant second dropoff in retail employment. In January, retail employment fell by 160,000 jobs, or -7.4%, largely in Ontario and Quebec, both of which implemented restrictions on non-essential shopping at the end of December.

Employment in Canada's economy and the retail sector

% change relative to February 2020

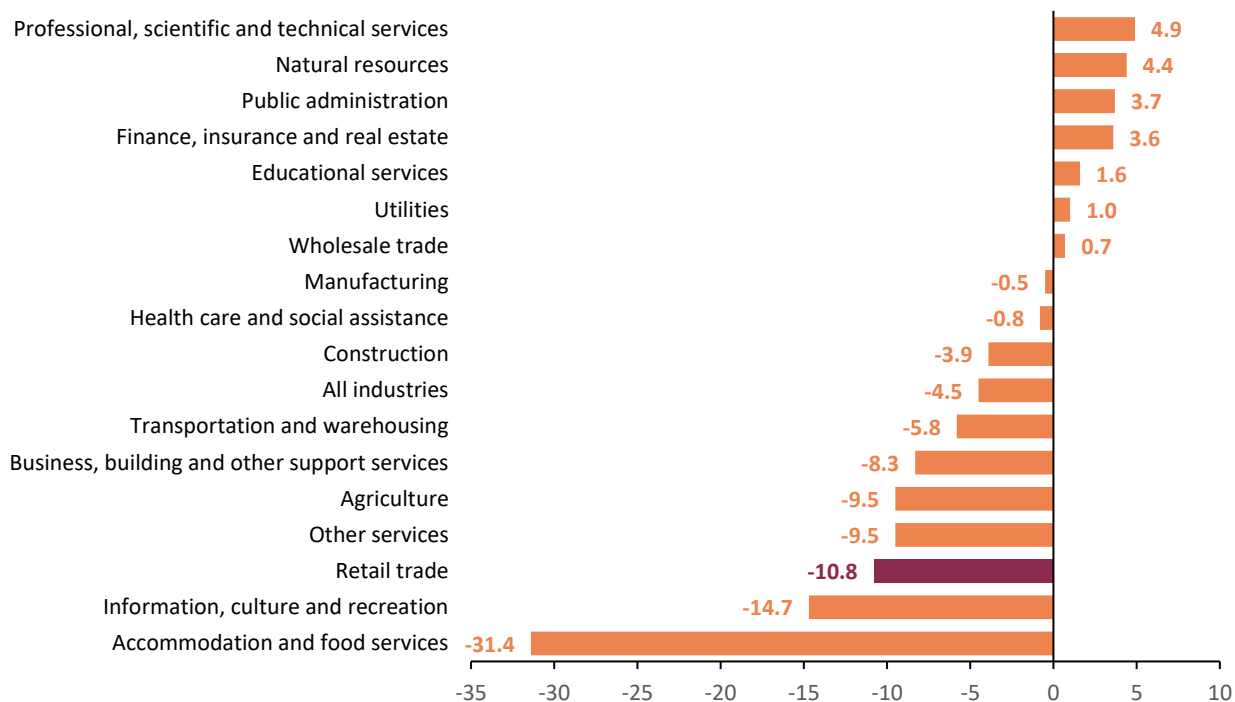


Source: EDC Economics; Statistics Canada.

Comparing the picture on retail employment to that of other sectors of the Canadian economy shows just how difficult the situation has been for most retail workers. With 11% fewer workers as of January 2021, retail's employment performance ranks 15th out of 17 sectors since the pandemic began. Only accommodation and food services, and information, culture and recreation have done worse.

Canadian employment, by sector

% change January 2021 relative to February 2020



Source: EDC Economics; Statistics Canada.

Productivity

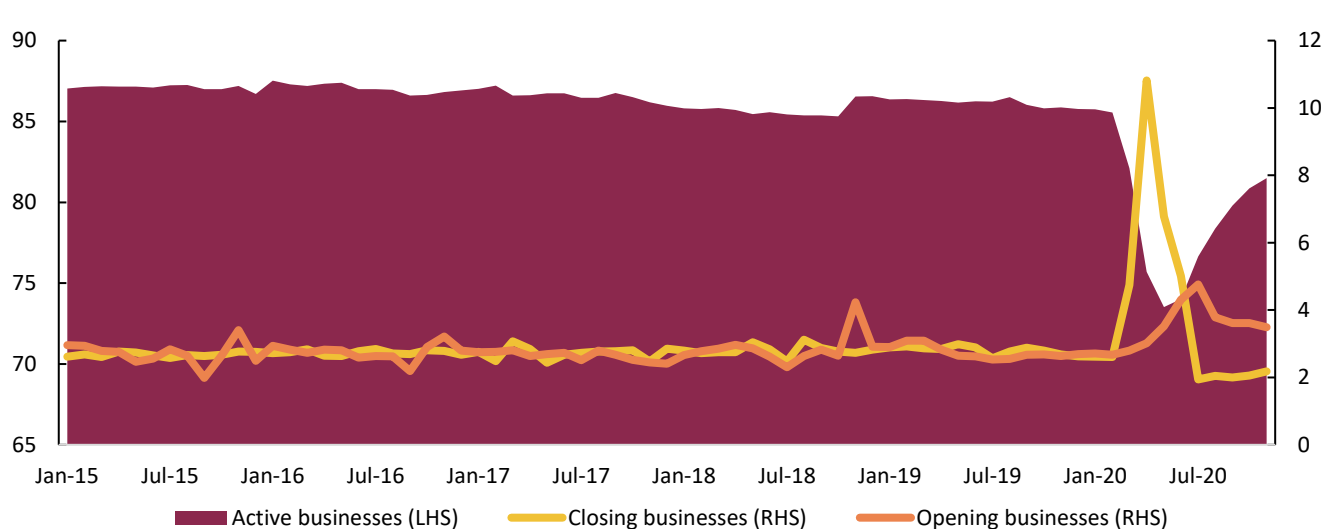
There's no doubt that the COVID-19 crisis has been a major disruptor for the overall economy and for the retail sector. One upshot is that this shock appears to have led to rapid productivity improvements in the sector. As consumers have shifted more of their purchases online, businesses have been able to produce more output with fewer workers.

Business dynamics

Recent Statistics Canada data demonstrates that the number of retail businesses operating in Canada fell considerably during the lockdowns from roughly 85,000 pre-COVID-19, with a peak loss of 12,000 firms (-14%), and still down more than 4,000. The retail sector has shown a slow decline in the number of private sector establishments for the last two decades. But the pandemic may have accelerated this pattern. Many of the small and "micro" businesses are facing risk of failure due to the inability to make payments to commercial landlords, or suppliers if their sales are anemic. The Canadian Federation of Independent Business surveyed its members in late 2020 and found 16% were unlikely to survive a second lockdown. Without government support, this could lead to the collapse of as many as 181,000 businesses and 2.4 million jobs, many of them retailers.

Change in number of active retail businesses in Canada

Number of firms, thousands



Sources: EDC Economics; Statistics Canada.

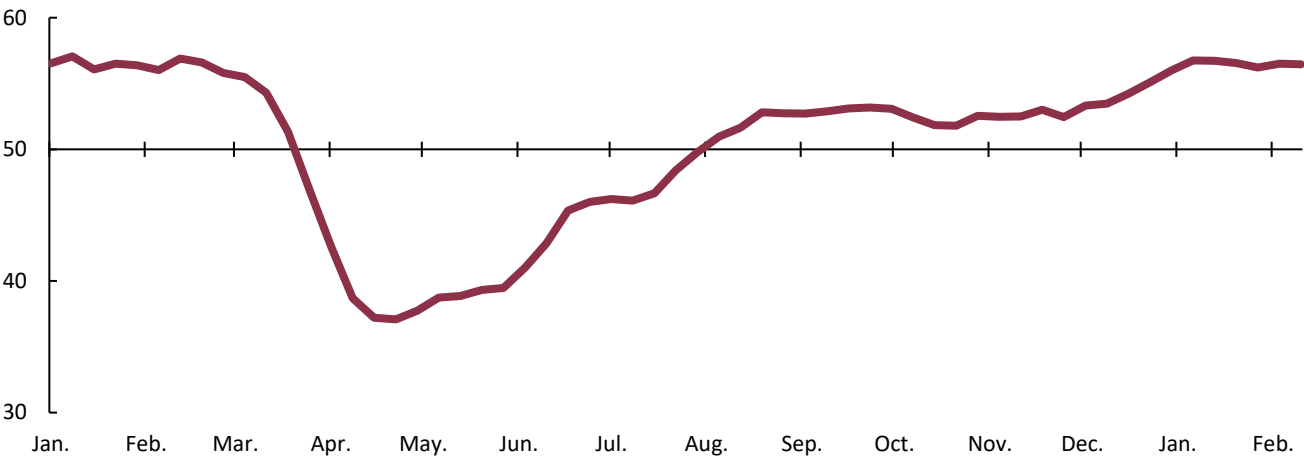
Some brick-and-mortar locations have already closed, including comparatively large-scale operations with well known brands. Toronto-based clothing retailer Roots recently announced the permanent closing of several U.S. stores, while Montreal-based Reitmans, a women's fashion chain, filed for bankruptcy protection and is currently liquidating its assets. Many of these companies accumulated debt before the pandemic, and reduced foot traffic culminated in losses that triggered insolvency and/or liquidity shortfalls.

Canadian consumer confidence

Consumer confidence fell sharply during the initial lockdowns in March to May. It wasn't really until summer 2020, after the first wave of COVID-19 cases had come under control, that consumer confidence started to improve on a sustained basis, with consumer spending following along. By mid-February 2021, the Bloomberg-Nanos *Canadian Confidence Index* hit 56.5, a level on par with pre-pandemic readings. This, together with the accumulation of savings for high-income individuals who kept their jobs working remotely during the pandemic, may bode well for overall consumer spending in 2021, assuming the vaccine rollouts proceed and the virus is brought under control. But delays on the health front, combined with potential business failures, could also severely undermine confidence and consumer spending.

Canadian consumer confidence

Index value



Source: Bloomberg-Nanos Canadian Confidence Index, weekly.

RETAIL TRADE SECTOR: KEY ECONOMIC STATISTICS

GROSS DOMESTIC PRODUCT (NOVEMBER 2020)	EMPLOYMENT (2020)	NUMBER OF COMPANIES (DECEMBER 2019)
\$104 billion	2,070,400	Total: 145,128 Small (<100 employees): 141,783 Medium (100-500 employees): 3,301 Large (>500 employees): 44

Sources: Statistics Canada, ISED Key Small Business Statistics.

ABOUT THIS REPORT

This report is part of a publication series of concise reports written by EDC Economics staff on the impact of COVID-19 on Canadian international trade and investment. The views expressed in this report are those of the author and shouldn't be attributed to Export Development Canada or its Board of Directors.

This report was written by Susanna Campagna, Joanna Zhong and the Research and Analysis Department, copy-edited by Janet Wilson and Karen Turner, with research assistance from Jerry Wang.

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