

Highlights:

- B.C. retail sales gains led by strong rebounds in motor vehicle and parts dealers; furniture/home furnishing stores and clothing retailers;
- Consumer demand likely to ease as fiscal supports end;
- Inflation shifts into positive territory as gas prices rebound and food prices climb at robust pace

Retail spending climbs back to pre-pandemic levels but will it last?

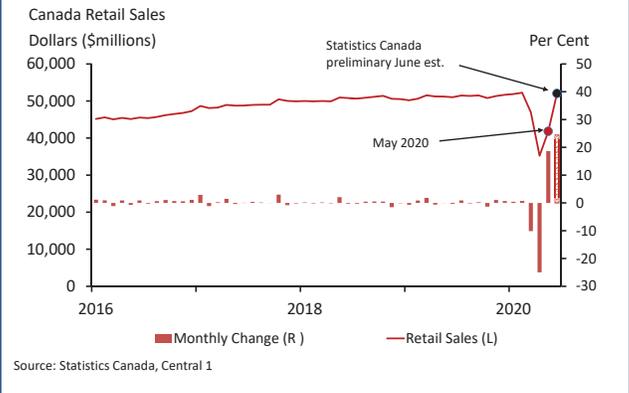
The Canadian retail sector looks to have experienced a 'V' shaped recovery as spending surged in May, and preliminary estimates by Statistics Canada points to return to pre-pandemic February levels in June as more of the economy and physical storefronts re-opened. Sales rose 18.7 per cent from April to May led by motor vehicle and parts dealers and clothing, although nearly all sectors showed gains. May sales were still 20 per cent lower than February and down 18 per cent year-over-year.

However, early growth estimates point to spike of 24.5 per cent in June, and if this performance holds, points to a level just shy of February and above year- ago levels in nominal terms at \$52 billion.

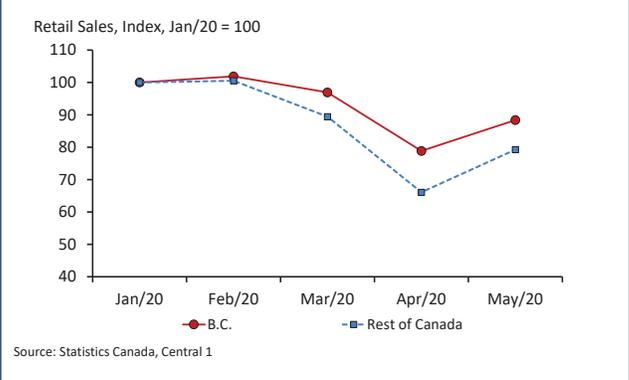
E-commerce sales continued to rise through May. Consumers have become more accustomed to and comfortable with online purchasing during the early days of the pandemic. This trend will likely hold even as traditional brick and mortar normalize given convenience and health concerns. E-commerce sales in Canada rose 112.7 per cent from a year ago in May to make up nearly eight per cent of all sales.

B.C.'s brick and mortar retail sales downturn has been shallower than Canada as whole. Many retail stores remained operational in B.C., allowing for curbside pick-up and shifting towards a more significant online presence. In contrast, non-essential retail services

Canadian retail sales bounce back to pre-pandemic levels



B.C. retail downturn shallower than rest of Canada



were ordered closed in provinces like Ontario. From February to April, monthly sales fell 23 per cent in the province, compared to 33 per cent nation-wide. While B.C.'s sales gain of 12 per cent in May lagged the national increase, relative performance was more favourable compared to pre-pandemic levels with sales down 13 per cent from February and 11 per cent year-over-year. Vancouver area sales outpaced the rest of the province with a 14 per cent increase. June growth will likely be less than the national gain but will rebound to near February levels.

Based on Central 1 seasonal- adjustment, B.C. retail sales gains were observed across sectors but led by strong rebounds for motor vehicle and parts dealers and furniture/home furnishing stores (both 30 per cent higher), and clothing retailers 80 per cent. However, sales were still down sharply in these sectors.

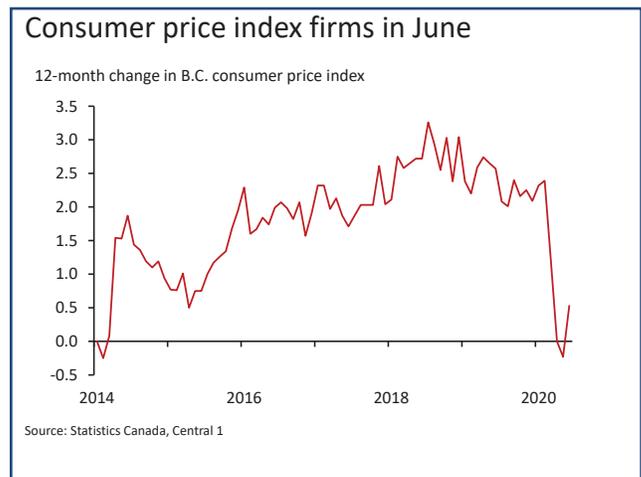
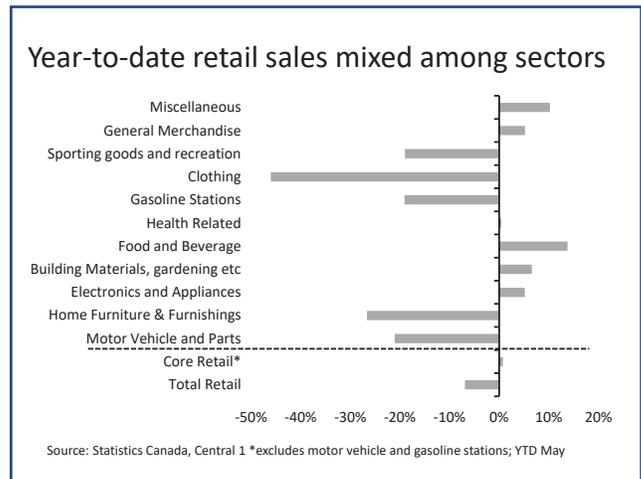
Year-to-date sales declined 6.9 per cent through May. The sharpest declines have been in autos, furniture, clothing and gas stations. In contrast, with much of the population staying and working at home, grocers, building material stores, and electronic stores have seen sales rise.

The retail sales recovery has been surprisingly robust given pervasiveness of high levels of unemployment. Fiscal support measures from the federal government have helped support incomes, and pent up demand from staying homebound, have likely lifted activity. Households may have also reallocated spending from restaurants, other personal services, and travel which may have boosted purchasing of goods. Momentum is expected to slow in the second half later this year as the economy settles into a new normal. A portion of temporary layoffs during the pandemic will likely crystallize into permanent jobs losses impacting consumer demand. Fiscal measures will also increasingly roll off.

Inflation shifts into positive territory as gas prices rebound and food prices climb at robust pace

Canadian consumer price inflation (CPI) firmed in June to +0.7 per cent, year-over-year, from -0.4 per cent in May. Price levels posted a stronger than normal monthly increase, with seasonally- adjusted prices up 1.0 per cent, month-to-month. The flip-flop in headline year-over-year gains owed in large part to slower declines in gasoline prices. A 10 per cent increase from May, driven by higher demand and underlying crude prices, narrowed the year-over-year decline to 15.7 per cent from a 30 per cent drop in May. Food prices remained firm with growth of 2.7 per cent. Rents also picked up after a drop in May. Broadly, the re-opening of the economy has contributed to firming of inflation.

Headline inflation in B.C. also turned positive, with year-over-year growth at 0.5 per cent, following a 0.2 per cent decline in May. This remains substantially below pre-pandemic levels when CPI growth was 2.4 per cent. Drivers were similar to the national patterns. Gas prices fell 15.5 per cent year-over-year, compared to 31 per cent in May, while food prices rose 3.7 per cent year-over-year. The latter likely owes in part to stronger demand as families stay home more often, while supply chain impacts of COVID-19 in the meat processing industry and the farm sector may also be driving prices higher. Rent rose 1.7 per cent, albeit shallower than 2.3 per cent observed in May, while



owned accommodations prices rose a modest 0.8 per cent. Clothing prices rose from May but were down 2.5 per cent year-over-year.

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