The Future of **Retail Sales**

Retail Sales

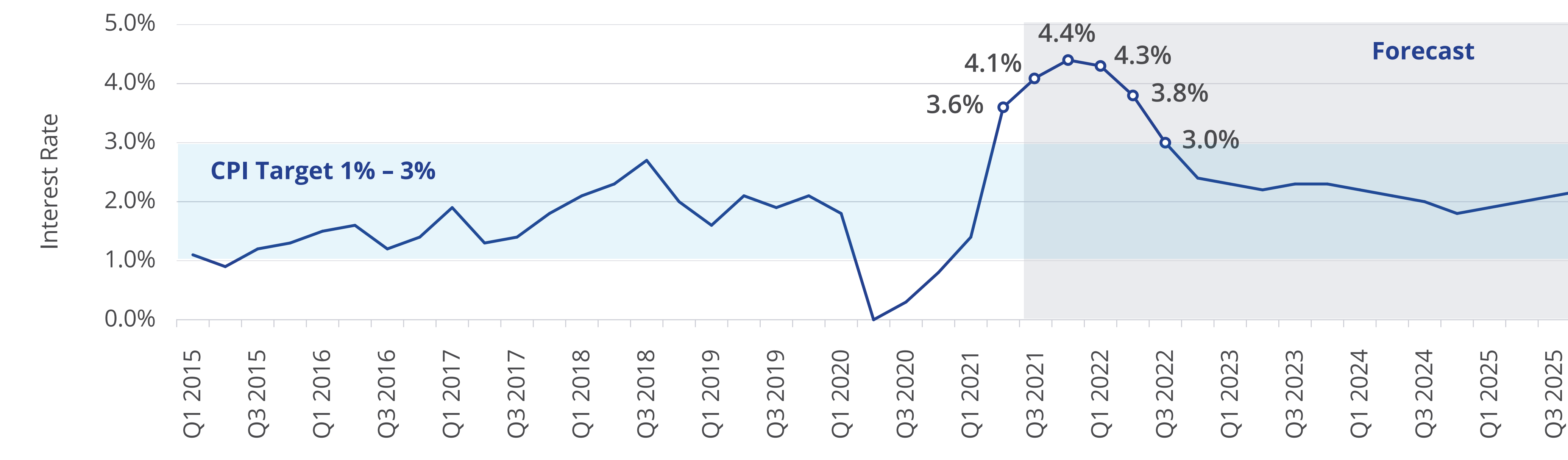
Statistics Canada released their latest sales numbers, showing that quarterly sales were up 2.7% in the Q3 2021, exhibiting the largest increase since Q3 2020. In volume terms, quarterly sales went up by 1.5%. With restrictions being lifted around the country, more businesses have reopened. This is the third straight month in which less than 1% of retailers experienced closures. Bank of Canada's quarterly monetary policy report noted that as the impacts of the COVID-19 pandemic recede and confidence rises, spending on services such as travel and accommodation is expected to continue to strengthen, while growth in demand for goods may moderate.

Due to the global supply chain issues, there was a 0.6% decline in monthly retail sales to $56.6 billion in September 2021 compared to the previous month. This decline is mostly attributed to raw-material shortages, factory closures and port congestion. Many retailers are now moving from a Just-In-Time practice to Just-In-Case, holding more stock on hand which requires more space to store it.

Quantitative Easing

- Not surprisingly, the Bank of Canada (BoC) held its Overnight Lending Rate at 0.25% on Oct. 27th, 2021, but more importantly they ended their $4 billion weekly quantitative easing that poured hundreds of billions into the financial system since the start of the COVID-19 pandemic.
- The BoC moved into the reinvestment phase, where they will only purchase bonds to replace maturing bonds.
- Despite the Canadian economy being more resilient during the second and third waves of the pandemic, GDP growth faltered in Q2 2021, declining by 0.3% due to a slowdown in housing sales and exports. The recovery remains fragile and unequal, with supply chain woes, labor shortages and inflation all contributing to ongoing uncertainty.
- CPI is currently above the 1% to 3% target set by the BoC, and although this is partly only temporary due to the base-year (2020) effects, supply chain woes and labor shortages will keep inflation elevated for longer than expected. Bloomberg News confirms that these forces of higher energy prices and pandemic related supply bottlenecks are now stronger than expected. CPI is expected to moderate downward back into the target range in the second half of 2022, however, this is also when the BoC is expected to start raising its Overnight Lending Rate.

The BoC CPI Target is 1% to 3%



Source: Bank of Canada, Big Six Bank Forecasts, Nov. 1, 2021.

What does this entail for Retail Sales?

A significant amount of income support measures designed by the BoC to help consumers and businesses during the pandemic has led to an accumulation of funds. Businesses have increased liquidity and households have record high excess savings. As a result, a high level of purchasing power could be unleashed in 2022. With the economy expected to run up against its capacity limits around the middle of 2022, higher spending would put even more pressure on prices. Households have also accumulated high levels of debt as a product of low interest rates and ever large mortgages. However, interest rates remain historically low, and the central bank may be forced to counter rising prices with earlier than expected interest rates hike.

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