



PERSPECTIVE

Retail Trade in Quebec: Turbulence Ahead

By Joëlle Noreau, Senior Economist

Retail trade is another sector of the economy that was rather shaken up by COVID-19. The pandemic accelerated some existing trends, like e-commerce. The past two years have created winners and losers, but they’ve also changed the way things are done. While retailers were in “enticement” mode, they moved into “reaction” mode to deal with the challenges of public health regulations, customer concerns and consumers’ new purchasing habits. There is no question of going back. Sales caught up in 2021, but that’s over with, and 2022 isn’t looking so triumphant. We should expect sales growth to slow due to high inflation, rising interest rates, high gasoline prices and dwindling consumer confidence. Still, the strong labour market will temper that trend. Retail sales are expected to continue to increase in Quebec in the coming months, but more moderately than in the first six months of the year. However, two unknowns remain. Number one is where the pandemic is headed; it has foiled many predictions up to this point. Number two is the possibility of a recession—or not. Either one could drive sales down, although it’s unlikely we’ll see another decline like we saw in the spring of 2020 and early winter 2021.

A Shifting Tempo

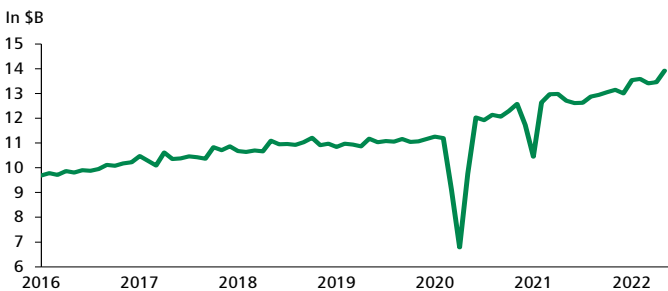
Retail sales trends don’t normally hold any surprises. Graph 1 shows their progression (seasonally adjusted) since January 2016. Unsurprisingly, there is an upward trend until 2020, when the economy was growing, wages were rising, unemployment was declining, and confidence was high among Quebec households, just to name a few consumer-friendly conditions.

However, we must now include pandemics and their associated lockdowns in these influences. As such, we’ve seen the sales curve sag a few times since March 2020, specifically during the

strictest lockdowns when “non-essential” businesses were either completely closed or only open for online or phone orders.

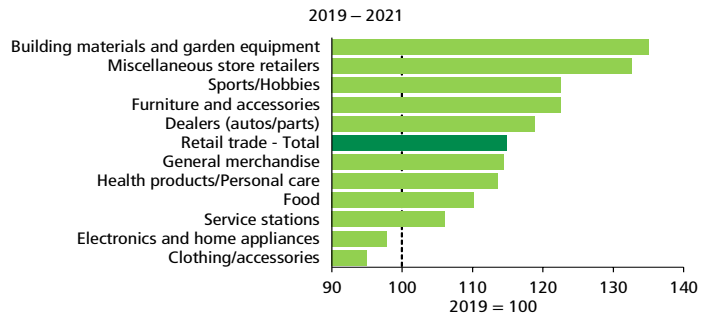
We can see that business picked back up in 2021. In practice, the average sales value in 2021 was 14.8% higher than in 2019 (graph 2). Clearly, inflation has bloated this figure, but it’s not entirely responsible for the increase, which was still 9.7% in real terms. In practical terms, multiple factors helped boost retail sales, including an increase in disposable personal income thanks to government measures (Canada Emergency Response Benefit (CERB) and others); money not spent on outings, restaurants or

GRAPH 1
Quebec: Retail sales growth has resumed in earnest after the early-2021 lockdown



Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 2
Quebec: Between 2019 and 2021, retail sales growth was very uneven



Sources: Statistics Canada and Desjardins, Economic Studies

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travel; the gradual recovery of the labour market; and several months' worth of pent-up demand. These factors caused sales to surge when restrictions on shopping were lifted.

Five major sectors fared better than average. Sellers of building materials and garden equipment and supplies saw a 35.0% gain due to the higher prices on materials resulting from the hectic pace on the housing market (both renovation and new construction). Miscellaneous store retailers (florists, office furnishings, second-hand stores, pet stores, mobile homes, etc.), which make up just over 3.0% of the total sales value, showed an increase of 32.6%. Sales of sporting goods, hobby items, music gear and books increased by 22.6%, while furniture and home furnishings gained 22.5% and auto dealerships and auto parts rose 18.8%. In this latter case, the rise in auto prices due to serious problems in semiconductor availability ballooned sales figures.

The value of retail sales increased, but the number of establishments declined. According to Statistics Canada, between December 2019 and December 2021, Quebec lost 1,021 businesses, i.e., 3.1% out of a total of 33,303 at the end of 2019 (Table 1). In terms of both number (-585) and percentage (-10.6%) of losses, the clothing and accessories sector was hit the hardest, accounting for more than half of the closures during the period. Teleworking reduced clothing requirements, of course, but online shopping with retailers outside Quebec was no small factor in this decline.

The second group that saw the heaviest losses in terms of numbers was food (-158 and -2.3%). The second highest, in percentage terms, was electric and household appliances (-7.9%, or 92 businesses). However, there were gains in two sectors. Nonstore retailers (online shopping, in particular) added 6.1% (+67 businesses) and health and personal care stores gained 0.1%, i.e., five more businesses.

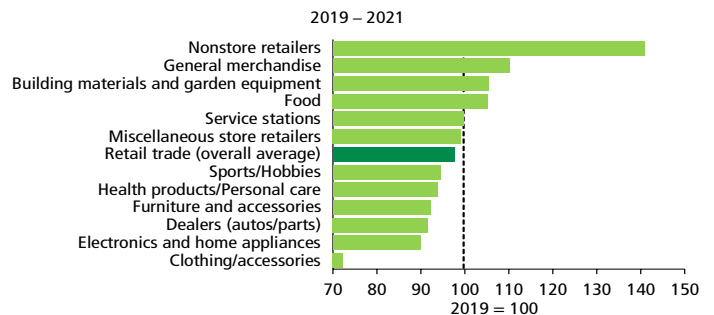
TABLE 1
Quebec: Number of retail businesses

IN NUMBER	DEC. 2021	DEC. 2019	DIFFERENCE
Retail trade – Total	32,282	33,303	-1,021
Dealers (autos/parts)	3,227	3,270	-43
Furniture and accessories	1,493	1,551	-58
Electronics and home appliances	1,072	1,164	-92
Building materials and garden equipment	1,833	1,891	-58
Food	6,703	6,861	-158
Health products/Personal care	3,343	3,338	5
Service stations	2,491	2,494	-3
Clothing/accessories	4,925	5,510	-585
Sports/Hobbies	1,540	1,553	-13
General merchandise	1,277	1,302	-25
Miscellaneous store retailers	3,214	3,272	-58
Nonstore retailers	1,164	1,097	67

Sources: Statistics Canada and Desjardins, Economic Studies

In 2021, the total number of retail employees didn't quite equal 2019 figures (97.7% of total employees). Graph 3 shows the change compared to 2019. Unsurprisingly, the heaviest losses were in clothing and accessories (72.3%), where the number of businesses declined the most. Next came electronics and appliances (90.0%), which also lost locations. On the flip side, nonstore retailers saw the biggest gains. This, too, is hardly surprising, given the explosive growth in online shopping.

GRAPH 3
Quebec: Between 2019 and 2021, nonstore retailers did the most hiring



Sources: Statistics Canada and Desjardins, Economic Studies

E-Commerce: The Elephant in the Room

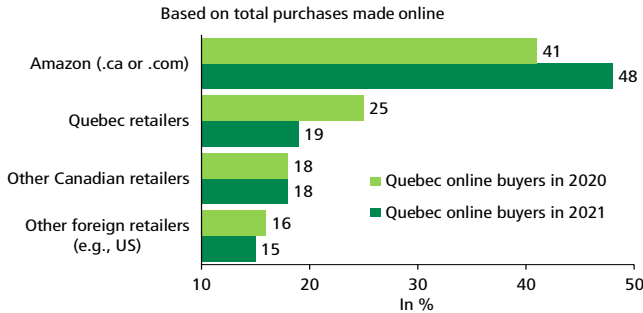
In terms of real GDP alone, the growth in online shopping offers a spectacular view in comparison with all retail trade sectors. In 2021, Quebec's economy as a whole recovered its 2020 losses. Retail trade increased 7.4%, whereas e-commerce GDP rose 60.4% compared to 2019.

The pandemic furthered the existing gradual shift of purchases toward online shopping. Intermittent closures of non-essential businesses pushed some consumers online. At the same time, hardware stores, which stayed open through the different lockdowns (sometimes with certain restrictions), made rather nice gains. Of course, the renovation and housing market was in full swing. Grocery stores saw fewer shoppers than before the pandemic, but the average cart value rose during the strictest periods. These are rather immediate effects. At the same time, Quebec retailers broadened their online product lines.

Consumers, meanwhile, shifted further online in 2020 and 2021. According to the [NETendances survey](#) by the [Académie de la transformation numérique](#) (previously conducted by CEFRIO), in 2021, 57% of online shoppers in Quebec increased the dollar value of the purchases they made online compared to 2020. The survey estimates that Quebec adults spent \$16.1 billion in 2021, a 30% increase over the total measured in 2019. It also reveals that three-quarters of Quebec adults made at least one online purchase in 2021. However, that percentage is slightly lower than the 78% seen in 2020. It appears that people ages 55-64 and 75 and over were less likely to make online purchases last year than in 2020.

And how did Quebec e-shoppers' choices break down? The same NETendances survey says 48% of Quebec e-shoppers' purchases were made on Amazon, a 7% increase compared to 2020 (graph 4). In 2021, Quebec's retailers netted 19% of the sales value, other Canadian retailers 18%, and the remaining 15% went to other foreign retailers.

GRAPH 4
Estimated distribution (%) of online sales made in 2021 on different websites and mobile apps



Sources: Académie de la transformation numérique and Desjardins, Economic Studies

In 2021, "47% of Quebec e-shoppers reported that the total dollar value of their online purchases increased on Amazon's websites or mobile apps." This percentage is 28% for Quebec retail websites (graph 5). One might wonder whether Quebec websites are better known now than they were before. The question can't be answered directly. However, the survey does show that the share of respondents who said it was easy or fairly easy to find Quebec e-retailers rose from 44% in 2020 to 50% in 2021 (graph 6).

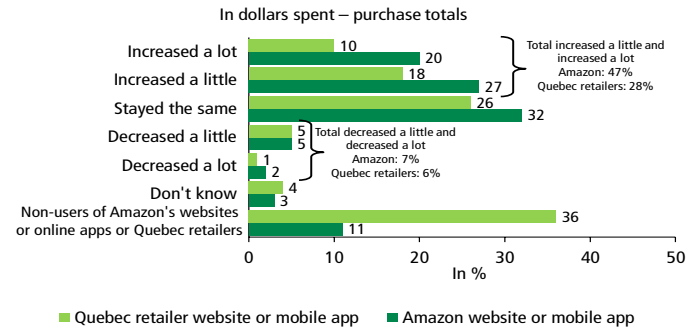
Logistics: When Stockroom Operations Move Front of House

There is a whole system of logistics surrounding e-commerce, and it can make all the difference among the various players on that chessboard. Delivery is one of the keys to online sellers' success, as they need to deliver quickly enough to satisfy their customers. Retailers must choose between cost and speed, which then forces other choices. Express or rush delivery usually incurs delivery fees.

The pandemic and lockdowns have caused "quick commerce" businesses to pop up around the world. These are grocery-like stores that offer an extremely quick delivery model, i.e., 10-60 minutes after the order is placed online. Some call them "dark stores," because they're not open to the public. They're found in city centres and densely populated areas. They stock limited goods chosen according to demand, with the goal of delivering as quickly as possible.

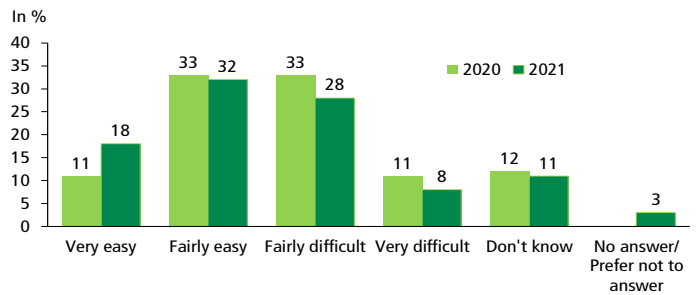
The big food stores aren't immune to this competition. One of these retail grocery giants in Canada recently signed a

GRAPH 5
Change in online purchasing volume in 2021 on Amazon compared to Quebec retailers



Sources: Académie de la transformation numérique and Desjardins, Economic Studies

GRAPH 6
Ease of identifying Quebec products online



Sources: Académie de la transformation numérique and Desjardins, Economic Studies

partnership with a [delivery service](#) that is generally associated with the food industry. As summer ends, plans will be set in motion in Toronto and Vancouver. Orders will be delivered within 30 minutes.

State of Play

Although a growing share of purchases are made online, in-person shopping is still a major activity. Between 75% and 80% of transactions are still done face-to-face. Retailers must be able to draw customers in, make them feel welcome and keep them coming back. Before the pandemic hit, retail trade was keen on developing new concepts to entice customers. These included quicker rotation of collections in clothing and accessories, customer tastings, and loyalty incentives with exclusives and crossover deals. However, COVID-19 and the resulting public health measures upended this trend, and retailers found themselves in "reaction" rather than "enticement" mode.

The uncertainty caused by COVID-19 and how it was handled escalated retailers' attempts to adapt. It was time to "handle the crisis," i.e., invest in e-commerce, make sure customers had safe physical access to stores, and at the same time protect employees in stores and warehouses, in particular through public health measures. Next in line were the problems of decimated

inventories and merchandise delivery delays caused by disruptions in global supply chains. The situation triggered a considerable hike in shipping costs. Then inflation joined in, leaving retailers even less headroom to set their prices and invest where they thought it was most urgent. Lastly, the labour shortage, which was already a factor before the spring of 2020, came back for another round.

Just like in the rest of the economy, labour issues are a pressing concern. Graph 7 shows the annualized first-quarter increase in the retail job vacancy rate since 2016. It stood at 5.1% in the first quarter of 2022, below the average for Quebec (5.8%), as we usually see. However, while the rate is below the overall average, the problems are just as pressing. Table 2 shows the rates by sub-sector. We can see that five of them are above 5.1%. In the lead are furniture and accessories dealers with 7.4%, followed by general retailers (e.g., department stores) tied with service stations at 6.6%. Building materials and garden equipment stands at 6.2%, and sporting and hobby goods at 5.8%. Data isn't available for nonstore retailers, but we can guess that the labour shortage must be resonating through online retail (with

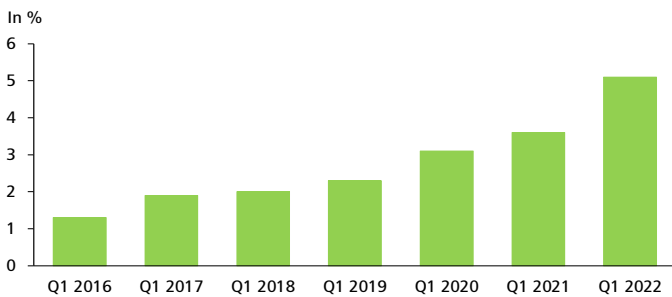
operations that include order intake, customer chat, website management, warehouse tracking, merchandise delivery and return) as well as in-store.

Some retailers are using technology to overcome the worker shortage. For instance, self-checkouts are becoming more common. Originally installed in grocery stores, they're now used in many retail outlets including hardware and department stores. Next-generation checkouts are being developed and deployed to help customers exit stores more quickly. Meanwhile, robots are streamlining storage, packaging and pick-up operations. In some cases, their mere presence reduces storage space due to their smaller size. On another point, technology may be used to create "virtual assistants" who are useful in e-commerce. They can answer customers' questions 24 hours a day, freeing up sales consultants for other tasks.

What's Next?

What's the outlook for retail in this environment? A quick look at the US will show you that the share of online sales soared in the United States early in the pandemic, but has since declined (graph 8). However, it's still higher than its pre-pandemic level. This phenomenon likely exists on this side of the border. The NETendances survey also reported that the percentage of Quebec adults who made at least one online purchase declined slightly between 2020 and 2021 (78% and 75%, respectively, where that figure was 63% in both 2019 and 2018). Despite this slight downturn, e-commerce is here to stay. And yet, for the moment, in-person sales are still the dominant form of retail trade.

GRAPH 7
Quebec: Job vacancies on the rise in retail trade and elsewhere in the economy



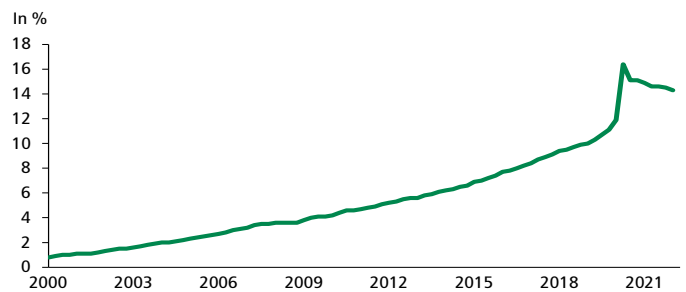
Sources: Statistics Canada and Desjardins, Economic Studies

TABLE 2
Quebec: Job vacancies are high in furniture, general merchandise and service stations

IN %	Q1 2022
Retail trade	5.1
Dealers (autos/parts)	5.1
Furniture and accessories	7.4
Electronics and home appliances	n.d.
Building materials and garden equipment	6.2
Food	5.0
Health products/Personal care	4.2
Service stations	6.6
Clothing/accessories	4.7
Sports/Hobbies	5.8
General merchandise	3.4
Miscellaneous store retailers	6.6
Nonstore retailers	n.d.

Sources: Statistics Canada and Desjardins, Economic Studies

GRAPH 8
US: E-commerce's share of total sales has decreased slightly but remains high



Sources: U.S. Census Bureau, Federal Reserve Bank of St. Louis and Desjardins, Economic Studies

What Will the Next Few Months Bring?

First off, we should expect the pace of purchasing to slow. That doesn't automatically mean that retail sales will fall back. We have to recognize that the frenzy of recent years is a thing of the past. With the gradual reopening of services since the last lockdown in early 2021, consumer spending has been channelled toward food services, personal services and travel, to name just a few. The end of government support programs for individuals has dried up one source of income. On another note, a portion of the

catch-up in goods purchasing is done, although the failures in procurement and the automotive sector are still creating unmet demand that could materialize as bottlenecks are corrected.

In addition to the supply-demand mismatch, there will be other influences on retail sales. Table 3 gives an overview of the factors currently at work. Some are tailwinds, and others anything but. The headwinds include inflation, which could shrink any leeway in household budgets. Those households are losing confidence, which may also curb the drive to spend. Disposable personal income isn't growing as quickly as in recent years, which may cool any desire to make purchases. By the same token, rising interest rates are bumping up the cost of credit. The slowdown on the housing market will push down spending related to moving into a new home. Lastly, the surge in gas and food prices is making pockets shallower and eroding households' discretionary spending budget.

possibility of a recession—or not. Either one could drive sales down, although it's unlikely we'll see another decline like we saw in the spring of 2020 and early winter 2021.

TABLE 3
Quebec: Tailwinds and headwinds for retail sales in the next few months

TAILWINDS	HEADWINDS
<ul style="list-style-type: none"> ➤ Very low unemployment rate and high participation rate. ➤ Substantial wage growth since 2017. 	<ul style="list-style-type: none"> ➤ High inflation. ➤ Household confidence declining due to high inflation. ➤ Lower disposable personal income. ➤ Rising interest rates. ➤ Slowing housing market. ➤ Very high gas prices.

Source: Desjardins, Economic Studies

Tailwinds include the buoyant job market. Especially low unemployment and very high activity (jobs and job-seeking) are likely to support purchasing. And the wage growth we've been seeing since 2017 is helping to maintain and even increase purchasing power. Likewise, accumulated savings and the savings rate—still high of late—are a solid base for consumer spending. These factors are likely to sustain retail sales. However, if we are to see an increase in Quebec, consumers will have to favour local retailers. This is a significant part of the equation, and work is underway with a number of "buy local" campaigns in Quebec and the [Panier Bleu](#) initiative.

From January to June 2022, real retail sales (without the inflation effect) increased by 3.2% in Quebec, compared to a jump of 20.4% during the same period last year. Again, the 2021 catch-up effect blurs any analysis of these figures. In light of the factors considered earlier, we should expect sales to continue to increase in Quebec in the coming months, but more moderately than in the first six months of the year. However, two unknowns remain. Number one is where the pandemic is headed; it has foiled many predictions up to this point. Number two is the