

POLICY PERSPECTIVES



Business Council of
British Columbia
Est. 1966

VOLUME 26, ISSUE 4, DECEMBER 2019

HEY BIG SPENDER: B.C.'S CHANGING BUT VIBRANT RETAIL SECTOR

HIGHLIGHTS

- Consumer spending drives the provincial and national economies. The retail industry is a dominant element of total consumer spending. This year, B.C. households will spend a projected \$87 billion in the province's retail outlets.
- The period spanning 2014 to 2017 saw strong growth, with retail sales surging by more than 9% annually at the peak. Over the past two years, however, sales growth slowed dramatically and this year, are on track to advance by an anemic 1.9%.
- Spending on automobiles is the largest segment of the retail sector. Combined spending on autos, parts, and gasoline amounts to 35% of all retail sales.
- B.C. consumers are prolific spenders. In 2018, on a per person basis B.C. had the second highest level of total spending, behind Alberta. Albertans, however, spend far more on vehicles. If spending on autos and gasoline is excluded from the total, British Columbian claims top spot for per capita retail spending this year. Per person spending in B.C. has typically lagged well behind Alberta, but a few years of strong growth in retail spending means B.C. now spends more per capita (excluding autos and gas).
- The retail industry employs nearly 300,000 people in the province. Across all industries it is second only to health care (323,000) in overall employment. The effect of self checkouts and other labour-saving capital equipment being deployed in the sector, however, is evident in the aggregate job numbers. Employment growth in the retail sector long tracked overall economy-wide employment. But since 2011, retail employment growth has flattened and lagged well behind broader job growth trends.
- The sector has posted relatively strong growth in real output. The sector's GDP has grown by an average rate of 3.3% over the past five years, ahead of the comparable 3.1% for the overall economy.
- Productivity gains are part of the reason the sector has posted comparatively strong growth over the past five years. Productivity growth in the retail sector has run at nearly twice the pace of economy-wide productivity growth in recent years.

The retail industry is transforming. Consumers are increasingly connected, have more access to information and have a greater appetite for personalized services. While the retail industry has been competitive and operated on relatively thin margins for decades, over the past ten years competition has become more intense. Large international retailers like Amazon and Walmart are leveraging technology and capturing market share. Some newer, smaller, tech-enabled competitors, however, are also managing to survive and grow.

The value chain across retail is becoming increasingly compressed, with many companies looking for ways to move supply chains closer to the consumer and deploying advanced technologies to better connect with consumers.

Even with the advent of new technologies and the disappearance of large, longstanding and established brands, many of the sector's characteristics endure. While e-commerce is clearly transforming retailing, to date in Canada it remains a relatively small

part of the overall retail landscape. Notwithstanding the fact that there has been little job growth in the sector for a decade as technology and e-commerce continue to transform the space, retail remains one of the largest employers in the province and the country. It also provides a wide range of employment opportunities, from entry level jobs to management and executive positions.

Below is an overview of the retail sector and retail sales in B.C. The discussion provides a high-level

overview of retail spending, trends in employment, and the sector's broad contribution to economic activity. While some discussion of the disruption going on in retail is inevitable, this is not a focus of the paper. The review of industry statistics suggests that despite weak employment growth, the retail sector is vibrant. The data does not show a picture of an industry in decline, but rather one that has become more productive in recent years.

RETAIL SPENDING IN B.C. AMOUNTS TO ALMOST \$87 BILLION ANNUALLY

Consumer spending accounts for roughly 70% of all economic activity in the province. Spending in retail stores and outlets is one of the most important elements of total household consumption, which also includes spending on services

(this is not captured in retail sales data). The figure below tracks retail spending in B.C. The left panel depicts the total value of retail spending rising from \$55.3 billion in 2009 to a projected \$86.5 billion this year. If spending on automobiles and gasoline is taken out, retail outlays amount to \$56.4 billion. Auto related spending represents a big slice of aggregate consumer spending. It now amounts to over \$30 billion annually, or 35% of all retail spending in the province. This share has trended higher over time but fluctuates somewhat year-to-year. Because of changes in energy prices, gasoline sales can vary substantially year-to-year and do not always align with conditions in other sectors.¹ This is why analysts often examine retail spending activity excluding autos and/or gas sales.

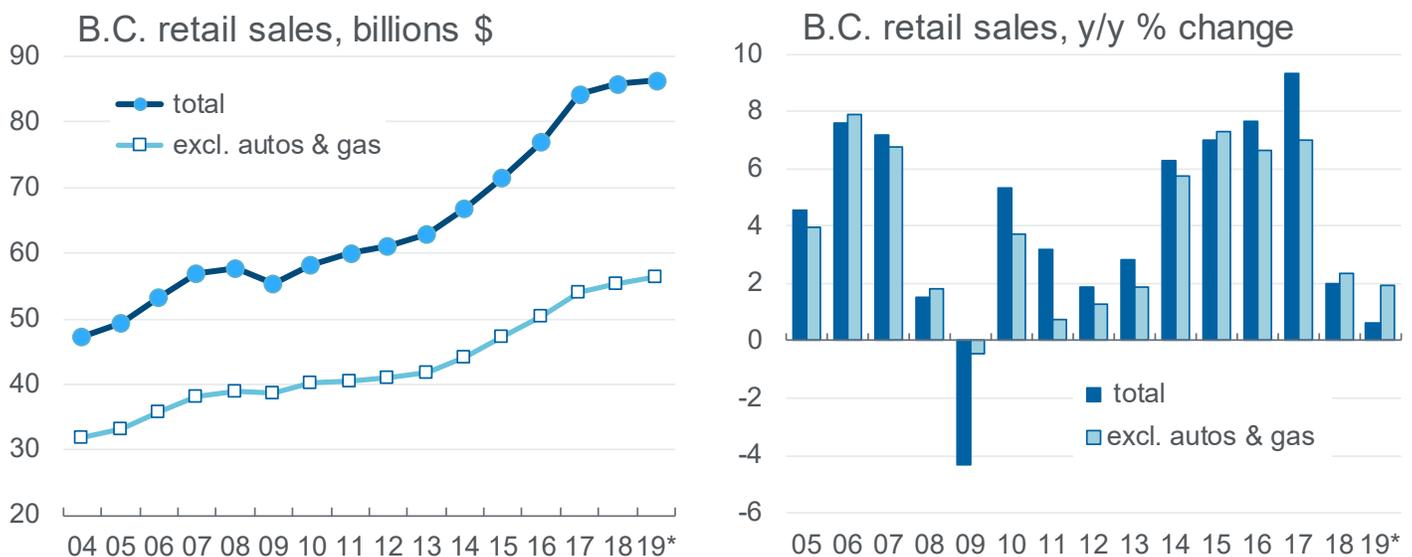
The other panel of the first figure below shows the annual growth

in retail sales in the province. The period of strong growth spanning 2014 to 2017 inclusive is evident, with retail sales surging by more than 9% annually at the peak. Over the past two years, however, sales slowed dramatically and this year, are on track to advance by an anemic 1.9% (see Figure 1). When autos and gas are excluded, annual growth is somewhat slower in most years. The notable exception is this year, where the steep fall in auto related spending has dragged down total retail spending in the province.

AUTOS AND FOOD ARE THE LARGEST RETAIL INDUSTRY COMPONENTS

In 2018, British Columbians spent \$21 billion on motor vehicles and parts. The second largest industry category is the food and beverage segment, which amounted to \$19.2

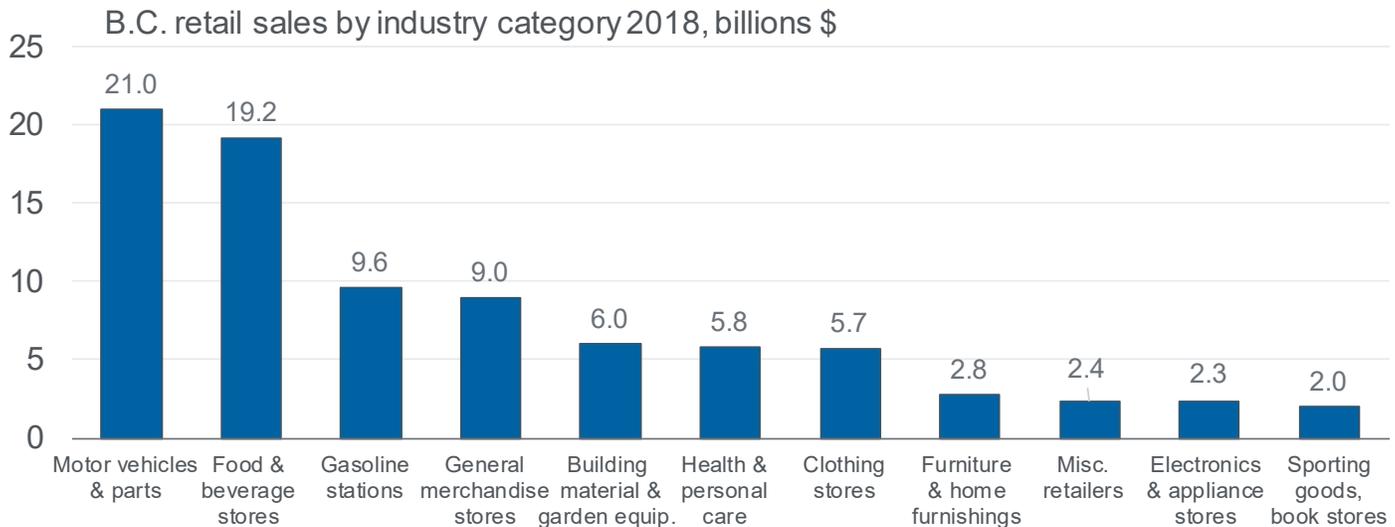
FIGURE 1: **RETAIL SPENDING IN B.C. RISES TO \$86.5 BILLION THIS YEAR**



Source: Statistics Canada, Table 20-10-0008-01. *2019 estimated based on year-to-date growth.

¹For example, in 2015 retail spending at gas stations in B.C. declined 8.2% from the previous year. In the same year, spending in all other broad retail segments grew and total retail spending rose 7%.

FIGURE 2: **MOST SPENDING ON MOTOR VEHICLES AND FOOD**



Source: Statistics Canada, Table 36-10-0222-01.

billion of spending last year. Note that this is just food and beverages in retail stores and does not include restaurant expenditures. Spending at B.C. gas stations reached almost \$10 billion last year. Adding gasoline purchases and motor vehicles and parts shows motor vehicles looming large in the retail space. Accounting for \$9 billion in spending, general merchandise stores are another significant part of the retail landscape. Consumers spent \$6 billion at B.C. building material and garden equipment stores last year. This category experienced a significant slowing in 2019. After a number of years of robust growth (including a dramatic 33% surge in spending in 2017), sales in this part of the industry have slowed and are on course to fall about 5% this year.

Over the past five years, boosted by a number of years of buoyant housing sales, construction and renovation activity, the building materials and supply sector posted

the strongest average annual growth in sales (13%) of any retail segment in the province. The next biggest gain in sales was for motor vehicle and parts dealers (9.4%), followed by clothing and accessory stores (8.3%). Among the different industry segments, the weakest growth in sales over the past five years was in electronics and appliance stores, which grew at an average pace of just 2.7%. After taking population growth and inflation into account, this segment of retail has seen no real increase in sales, reflecting intense online competition in the electronics segment as well as a fall-off in appliance sales in line with the drop in housing sales.

B.C. SPENDS MORE PER CAPITA THAN MOST PROVINCES

With rare exceptions, nominal retail spending rises each year. Population growth alone keeps

total expenditures growing in many jurisdictions, including B.C. But during strong economic expansions, rising employment and income growth also support retail spending. For this reason, measuring retail spending in per capita terms provides more insight into periods of strong retail activity. It also enables useful cross-provincial comparisons of spending patterns.

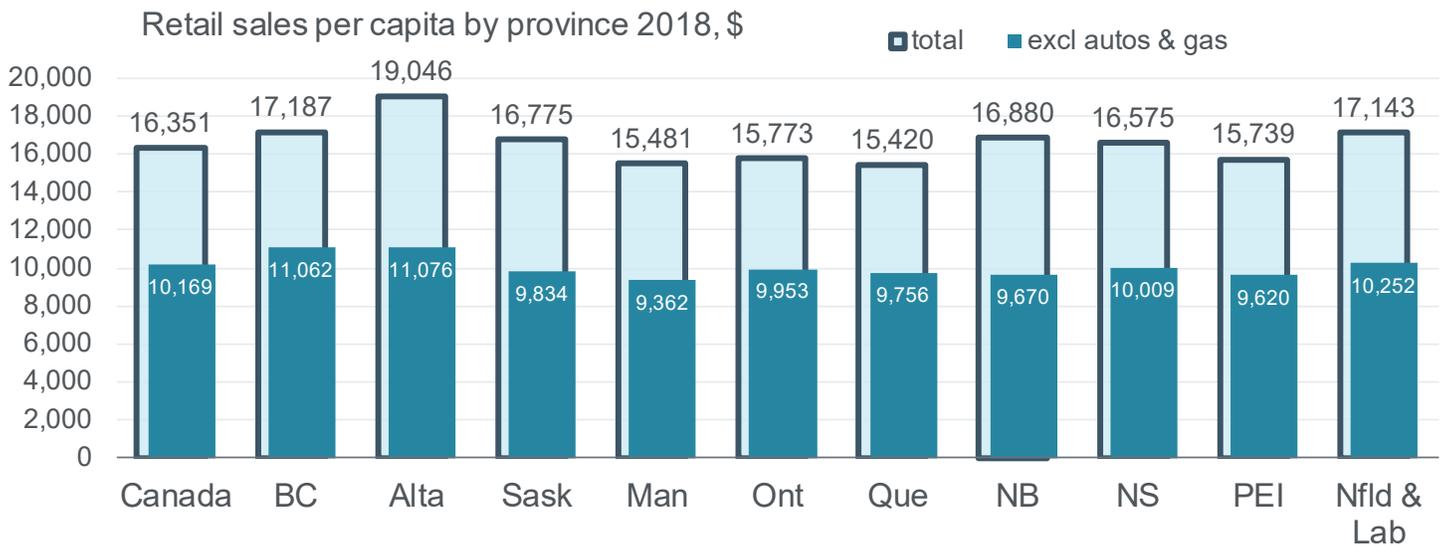
Measured in per capita terms, Albertans spend more in retail outlets than people in all other provinces. In 2018 per capita retail spending amounted to \$19,046. The comparable amount in B.C. was \$17,187. Strong growth in retail sales a few years back means the level of per capita spending in B.C. is now higher than the national benchmark. The chief reason per capita spending in Alberta is so much higher than in the other provinces is because Albertans spend significantly more on vehicles. Excluding autos and sales of gasoline, per capita spending

in B.C. and Alberta are essentially equivalent. After excluding autos and gas, Alberta and B.C. have the highest per capita retail sales, spending about \$1,000 more per capita than the other provinces.

It was not always the case, however. Strong economic and employment growth boosted retail sales growth for a number of years in B.C. At the same time, per capita sales growth was flat in Alberta, resulting in B.C.

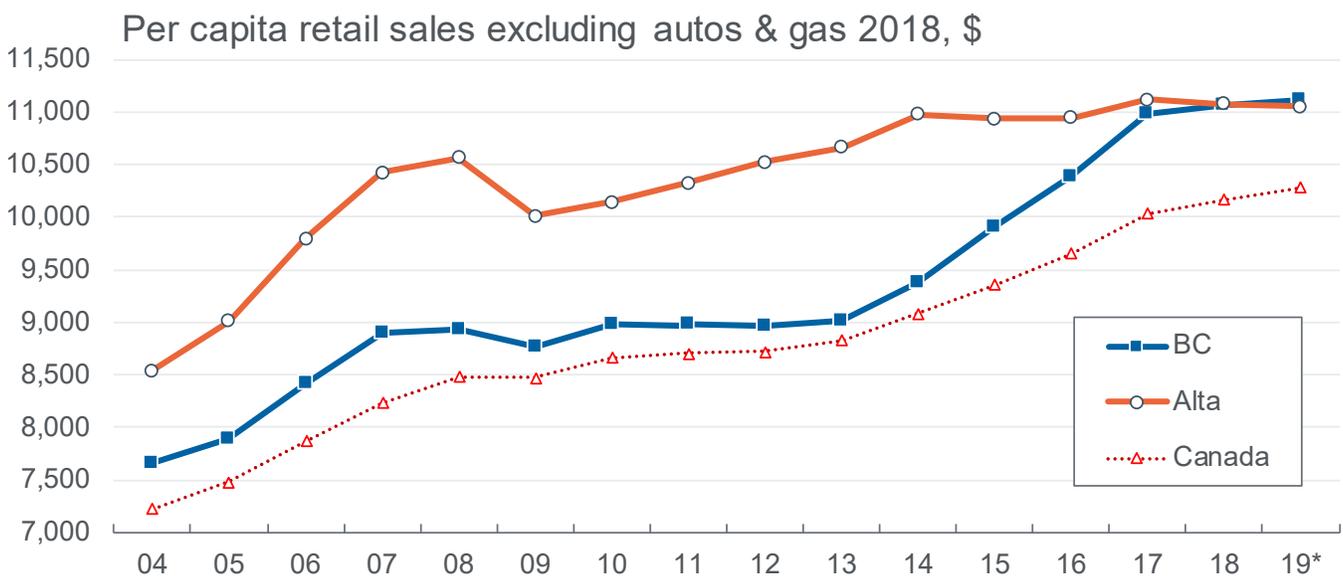
closing the gap with Alberta over the past four or five years. Based on year-to-date data, B.C. will have the highest per capita retail sales excluding autos and gasoline of any province in 2019.

FIGURE 3: B.C. SECOND HIGHEST PER CAPITA SPENDING



Source: Statistics Canada, Tables 20-10-0008-01 and 17-10-0005-01.

FIGURE 4: EXCLUDING AUTOS, B.C. HAS THE HIGHEST PER CAPITA RETAIL SALES



Source: Statistics Canada, Tables 20-10-0008-01 and 17-10-0005-01. *2019 estimated based on year-to-date growth.

E-COMMERCE SALES IN CANADA GROWING RAPIDLY

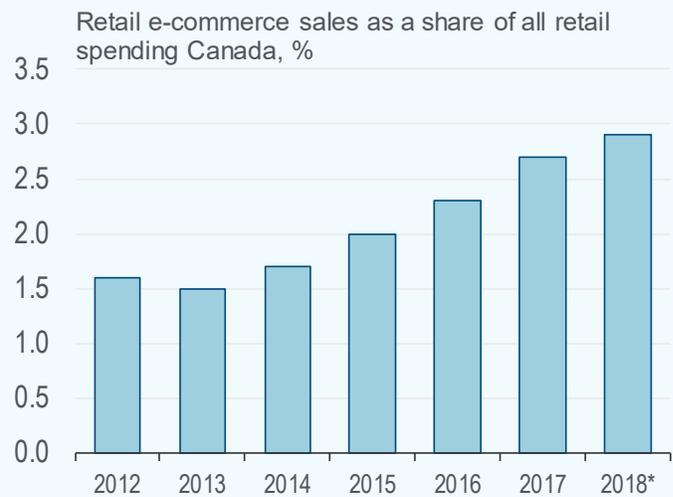
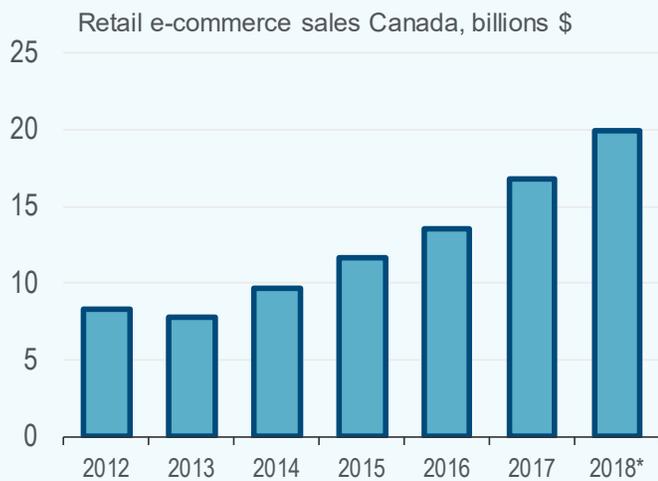
E-commerce is growing rapidly as consumers increasingly are ordering merchandise on-line. E-commerce purchases across Canada have more than doubled over the past five years, rising from \$7.8 billion in 2013 to an estimated \$20 billion in 2018. In comparison, Canadian total retail sales grew by 12% over the same period. While e-commerce continues to grow rapidly, it accounts for a relatively small share of overall retail spending. According to Statistics Canada, e-commerce represents approximately 2.8% of all retail spending in the country. This includes sales from non-store retailers as well as on-line sales from bricks and mortar retailers with on-line capacity.

Part of the reason the share is still relatively low is because the largest retail segments have relatively few online sales. Retail gas sales, for example, is the second largest industry segment by expenditure and it has no e-commerce sales. Spending at automobile and parts retailers is also one of the largest retail categories and just 0.3% of sales in this segment are e-commerce. Similarly, only 0.4% of food and beverage sales are classified as e-commerce. These figures also do not capture sales from U.S. based on-line retailers and therefore understate the total amount of e-commerce expenditures in the country.

Segments of Canadian retail with the highest share of e-commerce activity include: electronics and appliance stores (4.8%) and clothing stores (4.4%).

TOP 10 E-COMMERCE SITES IN CANADA	
Site	Est. Monthly Traffic (visits)
Amazon Canada	124 million
eBay Canada	34.5 million
Walmart Canada	21.6 million
Best Buy Canada	16.7 million
Canadian Tire	15.2 million
Costco Canada	14.2 million
Home Depot Canada	10.4 million
Etsy Canada	7.9 million
Hudson's Bay	6.6 million
Newegg Canada	4.2 million

Source: Disfold <https://disfold.com/top-e-commerce-sites-canada/>.



Source: Statistics Canada, Table 20-10-0065-01 and 20-10-0072-01.

RETAIL A MAJOR EMPLOYER

There are close to 290,000 people working in the retail sector in B.C. Retail employs more people than any other industry except healthcare/social services (323,000). Retail accounts for 11.4% of all jobs in the province.

In the mid 1990's there were 220,000 people employed in retail. Over the past two and a half decades, this number has increased by about 70,000, for an average annual growth rate of 1.1%. Total employment in the province grew at an average pace of 1.7% over the same period.

With the advent of new inventory systems, self check-outs, on-line shopping and other information technologies in the retail industry, it is not surprising that the sector's employment growth has not kept pace with the economy-wide rise in

employment. It wasn't until more recently, however, that employment in the sector started to lag. Between 1994 and 2011, the number of people working in retail grew broadly in line with overall employment. But beginning in 2011, divergent patterns between overall job growth and job growth in the retail sector emerged. The figure below shows an index of retail employment and total employment in B.C., providing an overview of growth patterns.

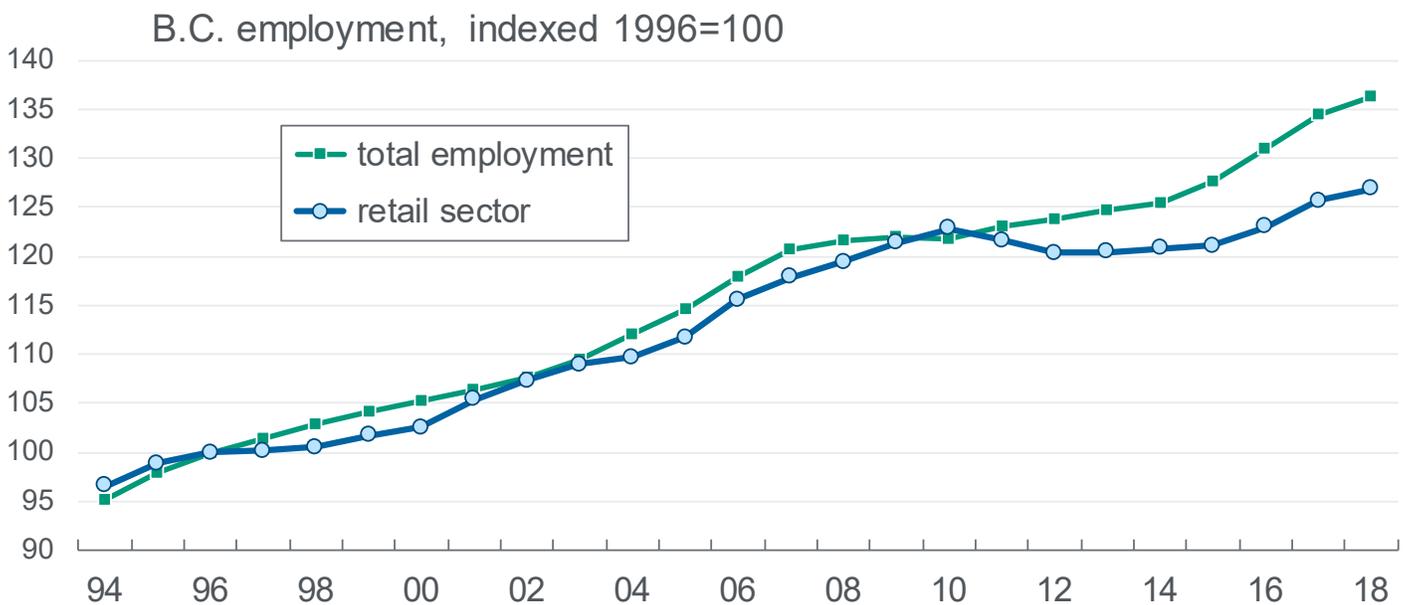
A similar trend is evident at the national level. The fact that the same divergence and weaker growth pattern for retail employment exists at the national level suggests that the recent sluggishness in retail job growth in B.C. reflects the broad and widespread disruption in the industry and is not an artifact of circumstances unique to B.C. Contrasting employment in the

retail sector with total employment at the national level shows the divergence beginning in 2008 or 2009, slightly earlier than in B.C. The same slowing in retail employment is evident in the U.S. In the case of the U.S. where there is arguably more competition in the retail landscape and companies invest in more capital equipment, the decoupling of retail employment from total employment began back in 2001/2002.

RETAIL CONTRIBUTES TO ECONOMIC GROWTH

Consumer spending represents a substantial share of all economic activity. During the province's recent period of strong economic expansion, the retail industry was a growth driver. Provincial Economic Accounts produced by Statistics Canada measure economic activity in value

FIGURE 5: **EMPLOYMENT GROWTH IN RETAIL SECTOR WEAK SINCE 2011**



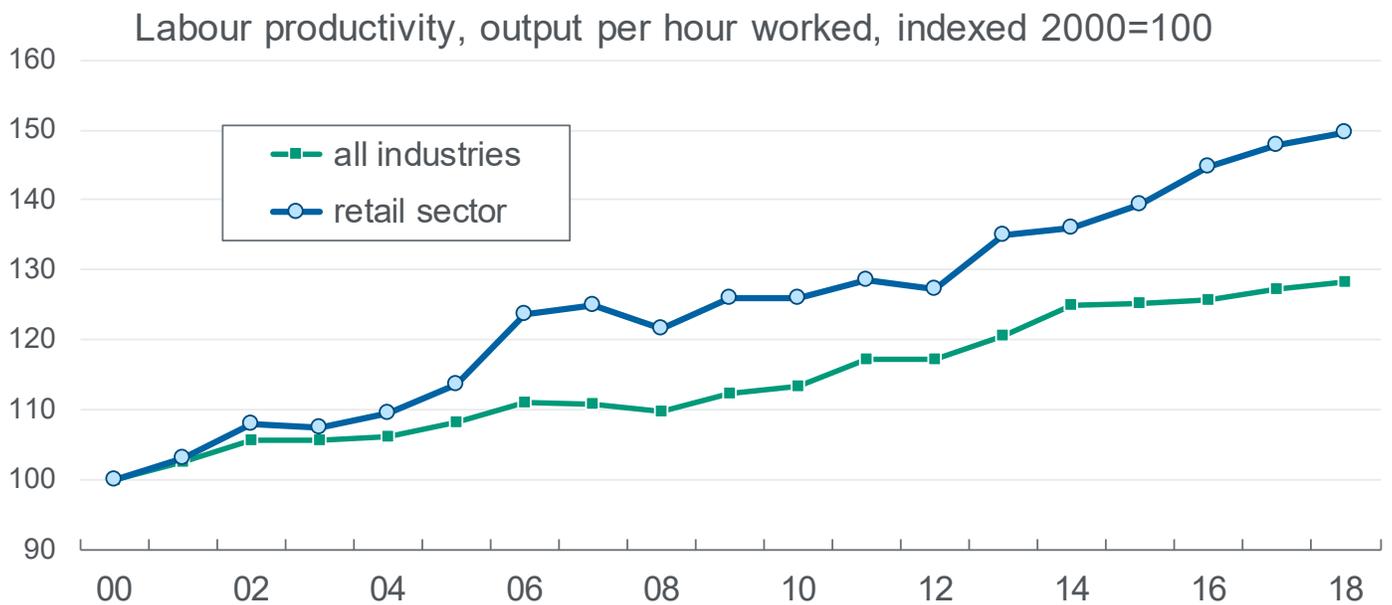
Source: Statistics Canada, 3-year moving average.

FIGURE 6: **CANADIAN RETAIL EMPLOYMENT ALSO LAGS**



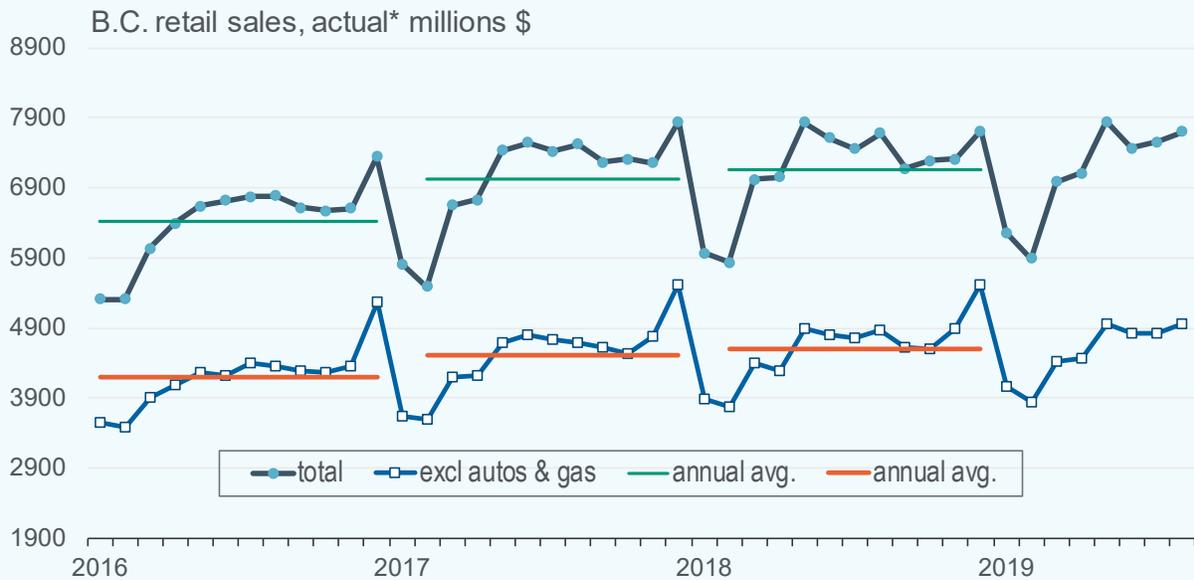
Source: Statistics Canada.

FIGURE 7: **RETAIL SECTOR HAS COMPARATIVELY STRONG PRODUCTIVITY GROWTH**



Source: Statistics Canada, Table 36-10-0480-01. 2012 chained dollars.

STRONG SEASONAL PATTERN IN RETAIL SPENDING

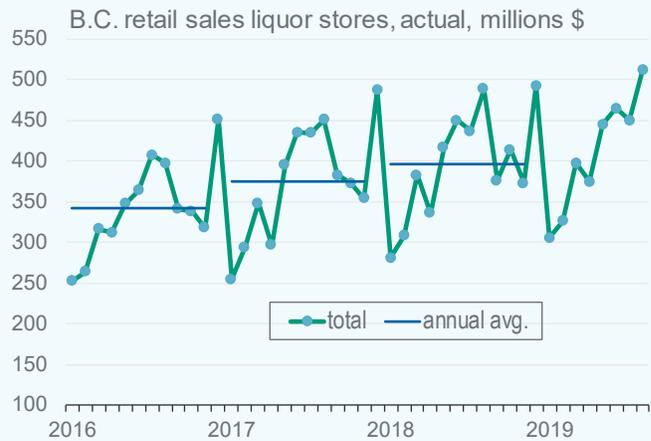


Source: Statistics Canada, Table: 20-10-0008-01.

In much of retailing the holiday season is critical to a store’s or industry’s overall annual sales performance and profitability. The accompanying figure shows actual monthly retail spending in B.C. That is the data are not adjusted for seasonal spending pattern. Plotting the actual data clearly shows the spike in spending that occurs every December. The seasonal pattern is strongest when spending on gasoline and automobiles is excluded from the total. For the years shown, retail spending on all merchandise except gas and autos jumps between 20% and 25% above the average monthly level in December. Early holiday shoppers and increasingly Black Friday mean that retail spending in November is also above average. The spending lull that invariably arises in January and February is also evident. In these early months of a year, spending can fall by 20% of more from its average level.

Liquor sales have an even stronger seasonal pattern. In December, spending at liquor stores surges by 25% to 30% above the average level for the year. Summer sales also spike, with retail spending on liquor in August nearly matching December’s sales.

LIQUOR SALES SURGE IN DECEMBER



Source: Statistics Canada, Table: 20-10-0008-01.

added terms. This differs from the data on retail spending in important ways. Retail spending is the amount consumers pay for merchandise at retail outlets. Value added or GDP measures track the additional value of services provided by retailers. In other words, in general terms value added subtracts the wholesale cost of retail merchandise from reported retail sales. GDP is commonly used to measure economic growth in different industries as well as overall economic growth.

In line with the significant rise in sales, the B.C. retail industry posted reasonably strong GDP growth over the past five years. Between 2013 and 2018, the industry grew by an average annual pace of 3.3% in GDP terms. This was up from the average 1.7% pace over the 2008 to 2013 period. It also surpasses the average 3.1% economy-wide growth over the more recent period.

The fact that retail employment growth has been well below broad economy trends while at the same time the industry has grown more quickly in value added or GDP terms suggests the retail sector has become more productive over time. Productivity measured by output (GDP) per hour worked has improved in the retail sector and outpaced the economy-wide advance. As evident in Figure 7, productivity was essentially flat between 2006 and 2012 in the B.C. retail sector. But from 2012 on, the industry has enjoyed solid productivity growth. Over the past five years, real (inflation adjusted) output per hour worked in the retail sector grew by an average 2.1% annual pace, nearly twice the rate of the comparable economy-wide metric.

SUMMARY THOUGHTS

The retail industry is in the midst of significant disruption and transformation. Specifics about the impact of digital technologies and how retailers are responding are beyond the scope of this short overview. But the impact of e-commerce, self check-out systems, inventory control systems and other digital technologies is evident in the employment numbers. In Canada and B.C., roughly a decade ago retail employment dynamics shifted, with the number of people working in the sector lagging well behind overall employment growth. It appears automation has already impacted retail employment, although in

aggregate so far the degree of job displacement is not especially large. Research, however, does suggest [many retail jobs are at risk of being automated](#). On a more positive note, the retail industry registered relatively strong productivity gains, as more and more retailers invest in labour saving technologies.

The official data indicate that in Canada e-commerce remains a relatively small part of total retail spending. The growth in e-commerce is set to continue and will undoubtedly account for a greater share of spending in the years ahead.

FASTEST GROWING RETAILERS IN B.C.: RETAILERS LISTED ON CANADIAN BUSINESS TOP 500 FASTEST GROWING COMPANIES IN CANADA

Name	2018 Revenue (\$million)	Headquarters	Employees (FTE)
Article	100 - 200	Vancouver	295
Pela	5 - 10	Kelowna	13
Indochino	50 - 100	Vancouver	272
Vitasave.ca	10 - 20	North Vancouver	65
Kasa Supply	20 - 50	Surrey	35
Venue Kings	50 - 100	North Vancouver	27

Source: *Canadian Business Magazine*.

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