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COVID-19 Impact Analysis and 2020 Outlook: The Retail Services Price Index

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COVID-19 Impact Analysis and 2020 Outlook: The Retail Services Price Index

This study analyzes the movements of the Retail Services Price Index (RSPI) during the COVID-19 2020 pandemic by subsector, including gasoline stations as well as clothing, electronics, food and general merchandise stores. It also compares how the pandemic and the 2008-2009 recession affected the retail sector and sheds light on how the RSPI may evolve in the second half of 2020.

What is the RSPI? The RSPI represents the change in the price of retail services, also known as the *margin price*: which is the difference between the *purchase price* and the *selling price* of the product being priced.

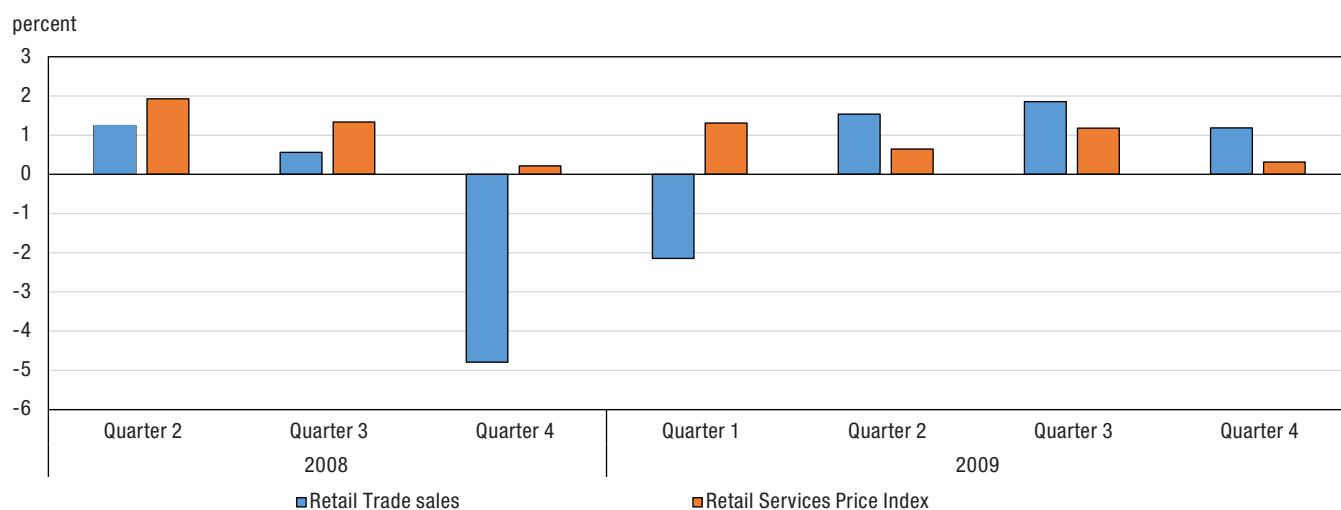
The RSPI remained positive during both recessions despite lower retail trade sales

During both the 2008-2009 recession and the COVID-19 2020 pandemic (up to June 2020), the growth of the RSPI slowed but remained positive, despite retail trade sales decreasing.

During the early stages of the COVID-19 pandemic, there were widespread store closures across Canada, leading to a record 13.6% drop in retail sales in the second quarter. Nevertheless, the RSPI rose 1.2% as some retailers created or strengthened their online presence, which helped them stay afloat (Chart 2).

A similar phenomenon, although to a lesser extent, was also observed during the 2008-2009 recession. For example, retail sales fell 4.8% in the fourth quarter of 2008 and declined a further 2.1% in the first quarter of 2009, while the RSPI edged up 0.2% in the fourth quarter and rose 1.3% in the first quarter (Chart 1).

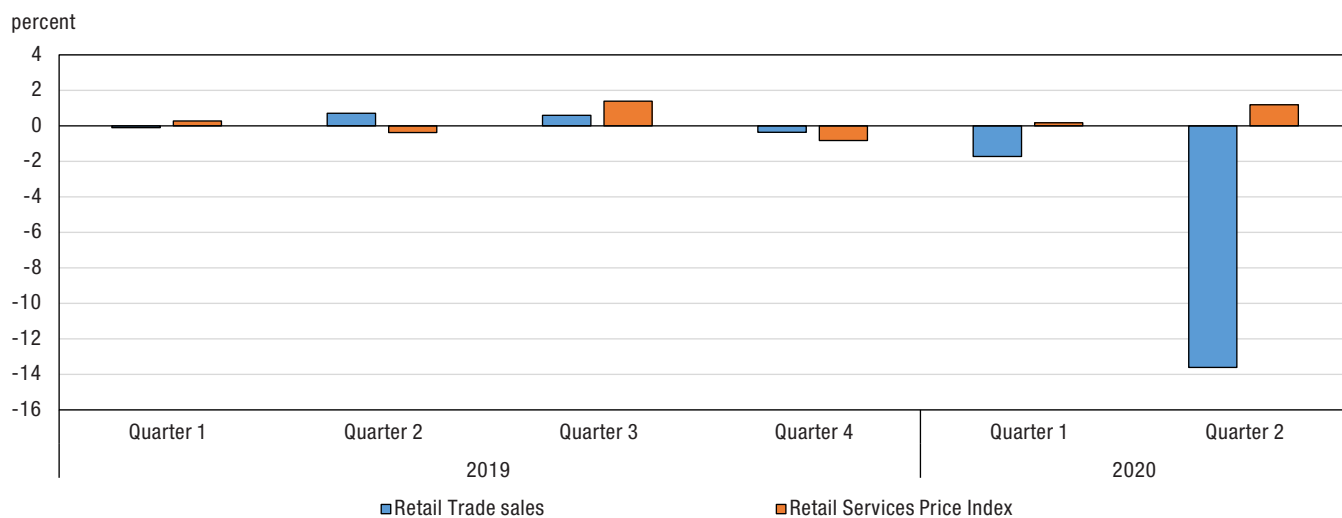
Chart 1
The Retail Services Price Index margins and Retail Trade sales (quarter-over-quarter percentage change) - 2008-2009 recession



Sources: Statistics Canada, Monthly Retail Trade (Survey number 2406, and internal calculations using Common Output Data Repository table 20-10-0008-01), The Retail Services Price Index (Survey number 5135).



Chart 2
The Retail Services Price Index margins and Retail Trade sales (quarter-over-quarter percentage change) - COVID-19 pandemic



Sources: Statistics Canada, Monthly Retail Trade (Survey number 2406, and internal calculations using Common Output Data Repository table 20-10-0008-01), The Retail Services Price Index (Survey number 5135).

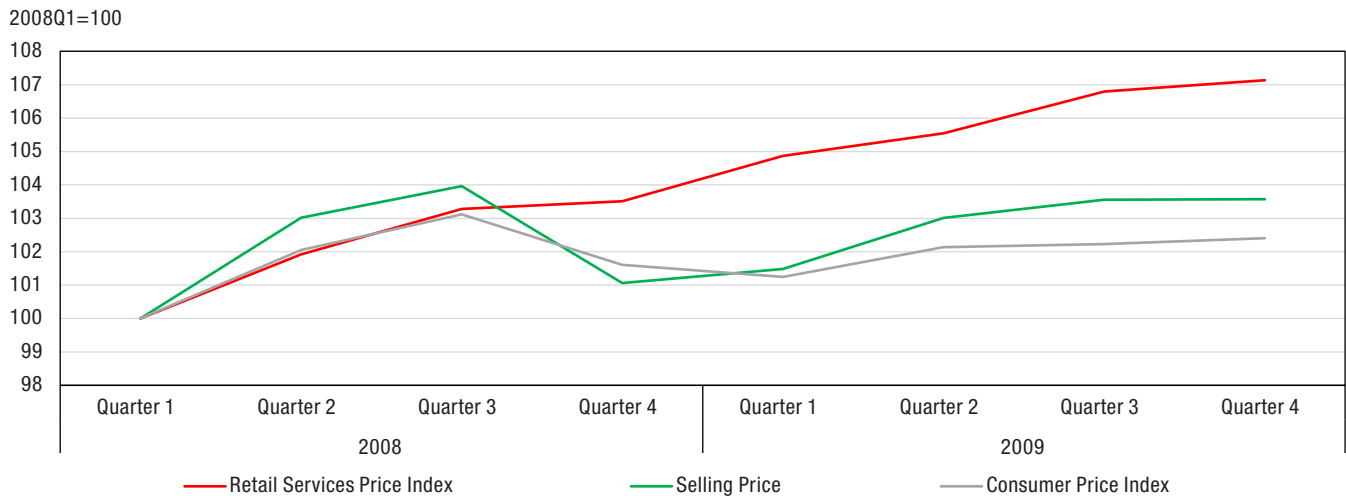
The 2020 economic impact of the COVID-19 pandemic

During the early stages of pandemic, overall household demand for goods and services was curtailed by social distancing measures to slow the spread of COVID-19, which limited access to retail stores. However, an increase in online purchases offset some of these losses. Lower household income as a result of business closures were also mitigated by government support programs leading to increases in household disposable income in the second quarter of 2020. The Gross domestic product, income and expenditure, second quarter 2020 release, reported an increase of 10.8% in household disposable income.

As shown in Chart 4, both the retail purchase price and the retail selling price indexes grew at a similar pace in the second quarter as retailers in many subsectors stayed connected with consumers through online sales during the early stages of the pandemic. This resulted in positive overall growth in the RSPI, despite plummeting sales in some subsectors. Gasoline stations, furniture, sporting goods, and electronics and appliance stores were the main contributors to the overall increase in the RSPI in the second quarter. Conversely, during the early stages of the 2008-2009 recession, both the purchase price and the selling price indexes of the RSPI declined sharply (Chart 3).

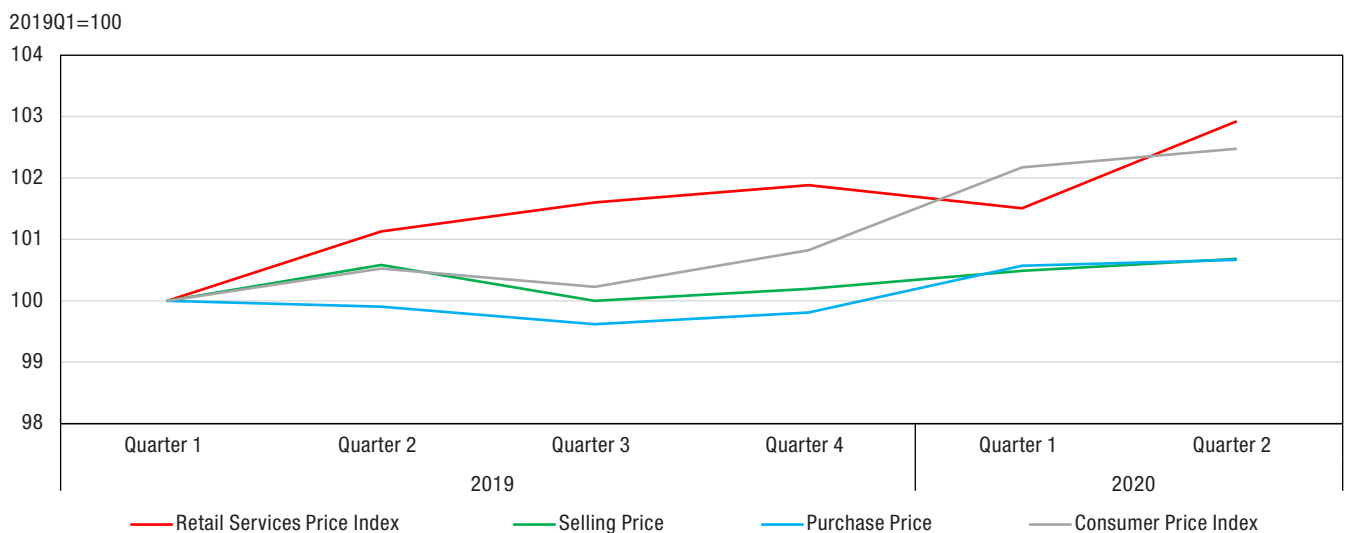


Chart 3
2008-2009 Recession: Retail Services Price Index, Selling Price, Consumer Price Index



Note: Purchase price data by quarter is not available for 2008-2009.
Source: Statistics Canada, The Retail Services Price Index (Survey number 5135), Consumer Price Index (Survey number 2301 and internal calculations using Common Output Data Repository table 18-10-0004-01).

Chart 4
COVID-19 recession: Retail Services Price Index, Selling Price, Purchase Price, Consumer Price Index

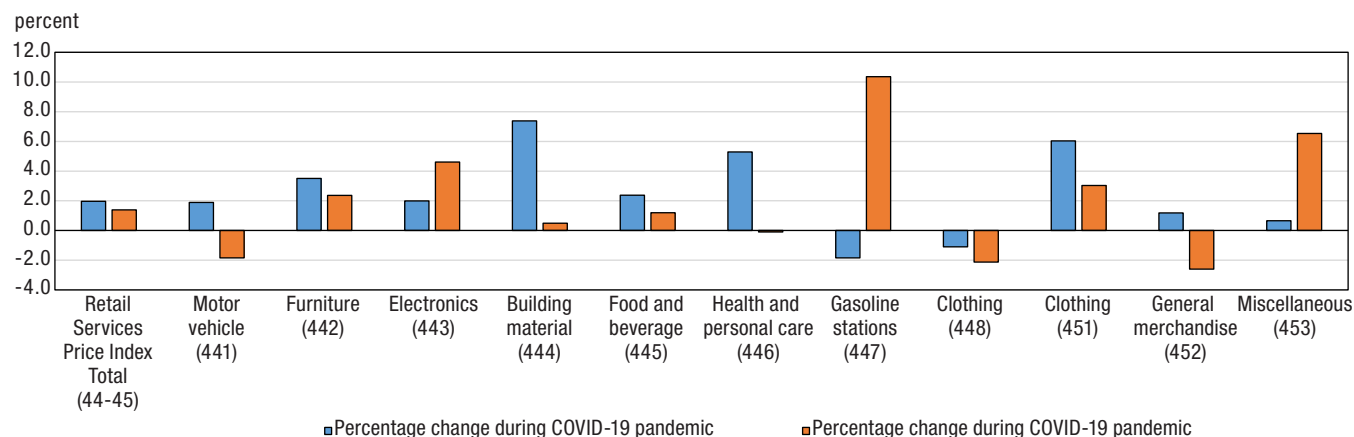


Source: Statistics Canada, The Retail Services Price Index (Survey number 5135), Consumer Price Index (Survey number 2301 and internal calculations using Common Output Data Repository table 18-10-0004-01).



RSPI percentage change during 2008-2009 recession and COVID-19 pandemic

Chart 5
Retail Services Price Index - Total percentage change



Note: Total percentage change represents the percentage change of the Retail Services Price Index from Q4 2008 to Q2 2009 for the 2008-2009 recession, and from Q4 2019 to Q2 2020 for the COVID-19 pandemic.

Source: Statistics Canada, The Retail Services Price Index (Survey number 5135).

The change in the RSPI remained positive during both recessions, with a slightly higher increase in the index during the 2008-2009 recession (+2.0%) compared with the COVID-19 pandemic (+1.4%) (Chart 5). To curb the pandemic, many retailers were deemed non-essential in March 2020, resulting in temporary storefront closures or reduced hours of operation. The largest margin decreases during the early stages of the pandemic were at motor vehicles and parts dealers, clothing and clothing accessories stores and general merchandise stores, which moderated the overall increase in the RSPI. Clothing and clothing accessories stores was the lone retail subsector to report lower margins during the 2008-2009 recession (-1.1%) and during the early stages of the pandemic (-2.1%).

Conversely, a large increase in the RSPI during the pandemic occurred at electronics and appliance stores (+4.6%), as working from home, the shift to online schooling and the transition of various services to online platforms accelerated the demand for electronic devices.

The sporting goods hobby, book and music store subsector (+3.0%) also contributed to the increase in the RSPI during the 2020 pandemic. With the closures of sports and fitness clubs during the early stages of the pandemic, people turned to buying sporting equipment online and remained active via online platforms. By way of comparison, the sporting goods subsector rose 6.0% during the 2008-2009 recession.

During the COVID-19 pandemic the gasoline stations margins increased 10.4% from Q4 2019 to Q2 2020 due to the fact that the purchase price decreased at a faster pace than the selling price. Crude oil was also affected by the increases in production by Russia and Saudi Arabia, which resulted in higher supply and therefore lower prices.

Gasoline stations was the lone subsector to post negative growth during all three quarters of the 2008-2009 recession, falling 1.8% from the fourth quarter of 2008 to the second quarter of 2009.

Food and beverage stores were less affected during both recessions with the RSPI edging up as selling prices continued to increase during the 2008-2009 recession (+2.4%) and the pandemic (+1.2%).



Outlook for the second half of 2020

Retail stores started to reopen in phases in May and June, resulting in increased economic activity in the retail sector. Retail sales, as measured by the Monthly Retail Trade Survey, rose five consecutive months since the record decline in April and were up 22.6% in the third quarter compared with the second quarter.

The RSPI is not expected to increase markedly in the remaining two quarters of 2020, as selling prices for most of the retail subsectors will likely remain low. The CPI (All items) was unchanged in July, edged down 0.1% in August and 0.1% in September, before increasing by 0.4% in October.

Due to the unique nature of the 2020 pandemic, it is difficult to predict how subsectors will fare given the varying state of local economies and the new measures related to the second wave of COVID-19.

However, as the economy starts to recover, more stores should return to their usual hours of operation, and general merchandise stores and clothing and clothing accessories stores should post positive RSPI growth in the third and fourth quarters of 2020. The health and personal care stores subsector is also expected to thrive because of the introduction of new products and services such as personal protective equipment, different testing devices, and vaccines. It is anticipated that the increasing demand for online platforms for work and leisure will continue and as such the need for electronic devices should remain strong. Therefore the electronics and appliance stores subsector should continue to grow.

However, some subsectors could continue to be adversely affected during the last half of 2020. Since many workplaces across Canada continue to have their employees work from home, the need to commute has fallen significantly; therefore, the motor vehicle and parts dealers subsector could continue to face declines in margins or, at most, muted growth for the remainder of 2020.