BMI Research
A FitchGroup Company

Industry Forecast - Retail Sector Forecast - Canada - Q1 2016

02 Nov 2015 | Canada | Retail

BMI View: *Canada's retail market is well developed, benefiting from the high proportion of mid- to high-range households where high levels of disposable income drives spending on non-essential items.*

Essentials Spending

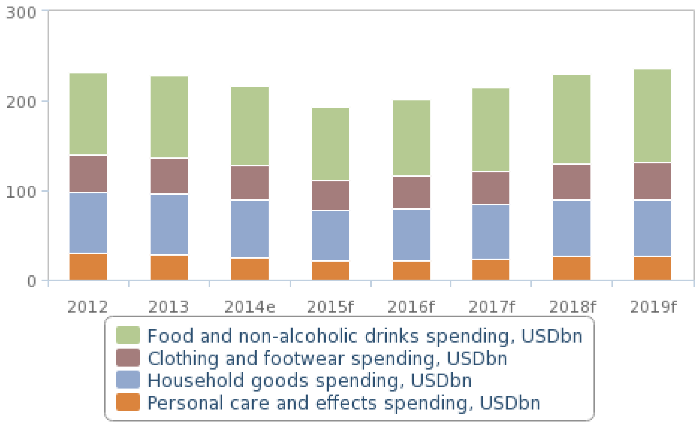
The economic woes of 2015 along with changes in consumer demand will continue to impact on the Canadian economy and keep consumer spending focussed on essential spending over the short to medium term. The global glut in oil prices and the weakening position of the Canadian dollar will continue to make goods more costly for the average consumer. This will facilitate a spending contraction in non-essentials over 2015 and increases households relative share of spending on essentials. Additionally household spending on essentials, specifically housing and transport, will expand due to increased demand internally and externally. The main drivers of this growth are the growing Canadian population, which will expand by 3.7% by 2019, and the increased appeal of the country internationally that has seen rapid and significant investment in the housing market over the last five years. This in turn places increased pressure on transportation systems and the demand for services. Consequently competition for resources in these sectors will continue to expand, driving prices higher and resulting in higher household spending.

Non-Essentials Spending

Growth of spending on non-essential items will mainly be driven by health, communications and education spending despite personal insurance and recreation maintaining the largest shares. The latter two sub-sectors will decrease marginally by 0.25 and 0.7% respectively, mainly as a result of the described increases in the cost of living and relative weakness of the economy affecting disposable income levels for consumers. Communication represents the best growth proposition for retailers as this segment continues to be characterised by high growth and investment although the market is highly competitive and could to begin to saturate. Education and healthcare retail expansion however remains limited. These markets represent a small percentage of total household spending and have limited appeal due to the high degree of customer satisfaction and the relative good quality and strength of state-provided services. The main positive drivers of growth in non-essentials in the future are increasing wage levels and the growing middle class. Employment and wage growth are forecast to improve as the economy moves forward and improves, along with a growing young middle class the key consumer demographic is beginning to expand. These conditions along with high levels of banking and finance access continue to make Canada appealing internationally and allow consumers and investors to continue to take advantage of the country's high level of development and good services

Steady Retail Growth

Breakdown Of Spending By Sector (USDbn) 2012-2019



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Food, Drink and Tobacco

In 2015 we expect spending on food & non-alcoholic drinks to reach USD80.7bn. Although this is the third consecutive decline in US dollar terms, this is largely due to currency fluctuations, and spending in local currency terms is increasing steadily, from CAD92bn in 2012 to an expected CAD102bn in 2015. Within this category, the largest line is spending on food which is forecast at USD71.7bn in 2015, increasing to USD94.0bn at the end of the forecast period in 2019. Canada's grocery retailers are increasingly seeking to upgrade the shopping experiencing to cater to high spend consumers, with companies such as **Whole Foods** expanding rapidly (aiming for 40 stores and CAD1bn in sales, up from the eight stores currently). The mid-market grocery sector is shrinking, and we expect to see more grocery retailers upgrading their conventional format supermarkets in order to differentiate themselves from the competition. At the other end of the sector, value grocery store **Costco** is also expanding rapidly, catering to price conscious shoppers.

Spending on alcoholic drinks is the second biggest line, with this sub-sector expected to reach USD16.6bn of spend in 2015, compared to USD9.0bn of spend on non-alcoholic beverages in Canada. Some areas could see a short-term boost in sales, as Ontario recently updated regulations to allow grocery stores to sell specified alcoholic beverages, though convenience stores are still banned from selling alcohol and home deliveries of online sales are also not allowed. Overall spending on alcoholic beverages is expected to grow to USD20.8bn in 2019, while non-alcoholic beverages will see spending of USD11.6bn. Spending is also high on tobacco products, increasing from USD12.6bn in 2015 to USD16.3bn in 2019.

FOOD, DRINK & TOBACCO SPENDING (CANADA 2012-2019)

Indicator	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Food and non-alcoholic drinks spending, CADbn	92.3	94.4	97.8	101.6	106.1	111.0	116.1	121.4
Food and non-alcoholic drinks spending, USDbn	92.4	91.6	88.5	80.7	85.6	92.5	100.9	105.6
Food and non-alcoholic drinks spending, USD %	2.41	-0.81	-3.43	-8.84	6.07	8.08	9.14	4.58
Food and non-alcoholic drinks spending, USD per household	6,624.0	6,502.5	6,216.5	5,589.3	5,848.1	6,236.7	6,717.9	6,936.4
Food and non-alcoholic drinks spending, USD per capita	2,649.6	2,601.0	2,486.6	2,244.7	2,358.1	2,525.0	2,730.9	2,831.2
Food spending, USDbn	81.9	81.4	78.6	71.7	76.1	82.3	89.8	94.0
Food spending, USD %	2.42	-0.60	-3.50	-8.79	6.12	8.13	9.19	4.63
Non-alcoholic drinks spending, USDbn	10.5	10.2	9.9	9.0	9.5	10.2	11.1	11.6
Non-alcoholic drinks spending, USD %	2.31	-2.48	-2.89	-9.19	5.63	7.63	8.70	4.18
Alcoholic drinks and tobacco spending, USDbn	33.9	33.7	32.2	29.2	30.7	32.9	35.7	37.0
Alcoholic drinks and tobacco spending, USD %	1.56	-0.67	-4.41	-9.47	5.25	7.21	8.27	3.78
Alcoholic drinks spending, USDbn	19.5	19.4	18.4	16.6	17.4	18.6	20.1	20.7
Alcoholic drinks spending, USD %	2.42	-0.64	-5.08	-9.75	4.90	6.85	7.93	3.45
Tobacco spending, USDbn	14.5	14.4	13.9	12.6	13.3	14.3	15.6	16.2
Tobacco spending, USD %	0.42	-0.72	-3.50	-9.10	5.70	7.67	8.72	4.19

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Clothing and Footwear

Spending on clothing and footwear in Canada is low compared to other retail sectors in the country, accounting for just 3.9% of total spending in 2015. Canada is home to several major domestic fashion retailers (such as **Roots**) as well as major US fashion retailers including **TJX**. Canada's fashion retail market can be difficult to crack though, as demonstrated by the recently announced withdrawal of US based chain **Target** which followed Dutch retailer **Mexx International**'s closure of its 95 stores in Canada in late 2014. Other retailers such as **Ann Taylor**, **Loft** and **J. Crew** have fared better, with **H&M** and **Banana Republic** also gaining market share and rivalling domestic firms.

Overall we expect spending on clothing & footwear to increase from USD34.0bn in 2015 to USD41.3bn in 2019, reflecting growth in spending per capita from USD949 in 2015 to USD1,107 at the end of the current forecast period. Of the total amount, the majority of spending is on clothing, which we expect will increase from USD28.8bn in 2015 to USD34.6bn in 2019. While budget and mid-market retailers have struggled in recent years, Canada's high end fashion sector is attracting investors: US luxury department store **Nordstrom** is expanding in the country with two stores due to open in 2016 and more to follow, indicating that opportunities remain in the market.

CLOTHING & FOOTWEAR SPENDING (CANADA 2012-2019)

Indicator	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Clothing and footwear spending, CADbn	40.5	41.4	42.0	42.9	43.9	45.1	46.2	47.4
Clothing and footwear spending, USDbn	40.6	40.2	38.0	34.0	35.4	37.5	40.2	41.2
Clothing and footwear spending, USD % y-o-y	1.11	-0.90	-5.51	-10.36	4.08	5.95	7.00	2.56
Clothing and footwear spending, USD per household	2,908.5	2,852.5	2,668.3	2,359.0	2,422.0	2,531.9	2,674.0	2,707.4
Clothing and footwear spending, USD per capita	1,163.4	1,141.0	1,067.3	947.4	976.6	1,025.1	1,087.0	1,105.1
Clothing spending, USDbn	34.5	34.1	32.2	28.8	29.9	31.7	33.8	34.6
Clothing spending, USD % y-o-y	0.78	-1.07	-5.60	-10.54	3.86	5.72	6.77	2.34
Footwear including repair spending, USDbn	6.1	6.1	5.8	5.2	5.5	5.9	6.4	6.6
Footwear including repair spending, USD % y-o-y	3.01	0.06	-5.01	-9.34	5.31	7.20	8.23	3.70

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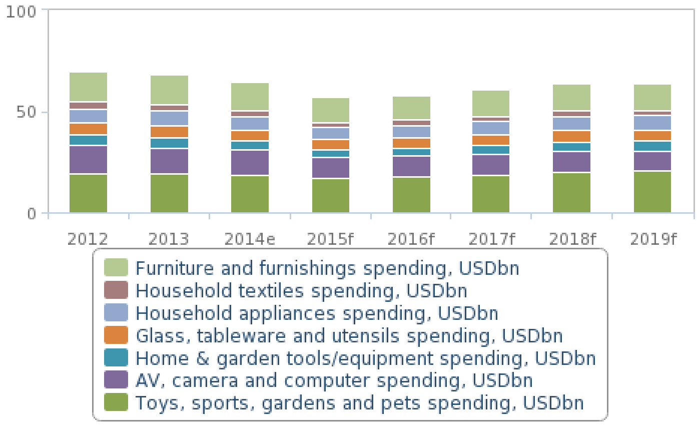
Household Goods Spending

Household goods are a key area of spending for Canada's retailers, with this sub-sector worth around USD56.7bn in 2015. Although a decrease compared to 2014 (when spending on household goods was USD64.3bn) again this is a reflection of currency fluctuations and in local currency terms spending will increase marginally to CAD71.5bn in 2015 (up from CAD71.0bn). Throughout the remainder of the forecast period, we expect spending on household goods to struggle to find substantial growth, increasing to USD64.0bn in 2019 (CAD73.6bn). This slow growth is due to the maturity of the market in Canada, and the intense pricing competition amongst established firms

Well Balanced Household Spending

Household goods spending by category, USDbn (2012-2019)



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Furniture & furnishings is a well performing category, with spending expected to increase from USD12.2bn in 2015 to USD13.4bn in 2019, while spending on household appliances will increase from USD5.9bn to USD6.7bn. Here US based retail giant **Home Depot** has a strong hold in the market, though domestic retailer **Leon's Furniture Store** is also showing steady growth. Swedish home-store **Ikea** is also relatively well established in Canada, with 12 stores in the country. Although spending on household goods will receive a boost from the expected increase in household income during the forecast period, there are some concerns surrounding Canada's housing market, where years of sharp increases in house prices have led to fears of a sharp market correction. Although we expect the housing market to avoid a crash, any substantial decline will undermine consumer confidence in this sector.

HOUSEHOLD GOODS SPENDING (CANADA 2012-2019)

Indicator	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
Household goods spending, CADbn	69.7	70.2	71.0	71.5	72.0	72.5	73.0	73.4
Household goods spending, USD per household	4,997.0	4,833.4	4,516.4	3,931.3	3,967.5	4,072.8	4,222.8	4,196.7
Household goods spending, USD per capita	1,998.8	1,933.3	1,806.6	1,578.8	1,599.8	1,648.9	1,716.6	1,713.0
Household goods spending, USDbn	69.7	68.1	64.3	56.7	58.1	60.4	63.4	63.9
Household goods spending, USD % y-o-y	-1.46	-2.27	-5.61	-11.74	2.30	4.04	5.05	0.66
Furniture and furnishings spending, USDbn	15.2	14.9	13.9	12.2	12.4	12.8	13.4	13.4
Furniture and furnishings spending, USD % y-o-y	-1.04	-1.86	-7.12	-12.25	1.71	3.43	4.44	0.09
Household textiles spending, USDbn	3.1	2.9	2.8	2.4	2.5	2.6	2.7	2.7
Household textiles spending, USD % y-o-y	1.50	-4.58	-5.64	-11.94	2.06	3.78	4.79	0.41
Household appliances spending, USDbn	7.1	7.1	6.6	5.9	6.0	6.3	6.6	6.7
Household appliances spending, USD % y-o-y	0.87	0.24	-6.69	-11.29	2.79	4.50	5.49	1.06
Glass, tableware and utensils spending, USDbn	5.9	5.9	5.6	5.0	5.1	5.4	5.7	5.8
Glass, tableware and utensils spending, USD % y-o-y	0.96	-0.11	-6.08	-10.80	3.34	5.03	6.00	1.53
Home & garden tools/equipment spending, USDbn	5.0	5.0	4.6	4.1	4.2	4.4	4.6	4.6
Home & garden tools/equipment spending, USD % y-o-y	-0.42	-0.68	-6.92	-11.62	2.43	4.14	5.14	0.74
AV, camera and computer spending, USDbn	13.8	12.7	12.2	10.5	10.4	10.4	10.5	10.2
AV, camera and computer spending, USD % y-o-y	-8.96	-7.50	-3.93	-14.47	-1.06	0.45	1.32	-3.02
Toys, sports, gardens and pets spending, USDbn	19.6	19.5	18.6	16.7	17.5	18.5	19.9	20.4
Toys, sports, gardens and pets spending, USD % y-o-y	1.77	-0.52	-4.68	-10.01	4.37	6.15	7.15	2.64

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Canada has a strong consumer electronics sector, however the market is very established, indeed saturated, and will likely to struggle to find opportunities for growth. Consumer patterns are changing, and spending on traditional consumer electronics such as computers and audio-visual equipment is expected to decrease throughout the forecast period as alternative technologies (i.e. smart phones) gain in popularity.

CONSUMER ELECTRONICS SPENDING (CANADA 2012-2019)								
Indicator	**2012**	**2013**	**2014e**	**2015f**	**2016f**	**2017f**	**2018f**	**2019f**
AV equipment spending, CADbn	0.8	0.7	0.8	0.7	0.7	0.7	0.7	0.7
AV equipment spending, USDbn	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6
AV equipment spending, USD % y-o-y	-8.96	-7.50	-3.87	-13.12	0.64	2.30	3.28	-1.04
Cameras and video cameras spending, USDbn	7.4	6.8	6.5	5.6	5.5	5.6	5.6	5.5
Cameras and video cameras spending, USD % y-o-y	-8.96	-7.50	-3.93	-14.47	-1.06	0.45	1.31	-3.03
Computers spending, USDbn	5.6	5.2	5.0	4.3	4.2	4.2	4.3	4.1
Computers spending, USD % y-o-y	-8.96	-7.50	-3.94	-14.66	-1.30	0.19	1.04	-3.31
AV equipment spending, USD per household	55.2	50.6	48.1	41.2	40.9	41.3	42.1	41.1
AV equipment spending, USD per capita	22.1	20.2	19.2	16.6	16.5	16.7	17.1	16.8

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Within the household goods sub-sector, the strongest category is toys, sports, garden & pets spending, which we expect will reach USD16.7bn in 2015 before increasing to USD20.5bn in 2019 - outpacing growth in much of the rest of this sub-sector. Canada has a well established sports and outdoor activities culture, and is home to large domestic sports retailers such as **FGL Sports** which operates various sporting retail stores such as **Sport Chek, Atmosphere, National Sports** and **Hockey Experts**. High end sportswear manufacturer **Canada Goose** is also well established and expanding beyond the Canadian market. US home retailers, such as Home Depot noted above, also fare well in this sector due to the high volume of spending on gardens, plants & flowers (expected to reach USD3.9bn in 2015, increasing to USD4.4bn in 2019).

TOYS, SPORTS, GARDENS AND PETS SPENDING (CANADA 2012-2019)								
Indicator	**2012**	**2013**	**2014e**	**2015f**	**2016f**	**2017f**	**2018f**	**2019f**
Games, toys and hobbies spending, CADbn	3.6	3.7	3.8	3.9	4.0	4.1	4.2	4.4
Games, toys and hobbies spending, USDbn	3.6	3.6	3.4	3.1	3.2	3.4	3.7	3.8
Games, toys and hobbies spending, USD %	1.77	-0.52	-4.45	-9.89	4.51	6.29	7.28	2.76
Games, toys and hobbies spending, USD per household	259.0	255.0	241.2	214.4	221.0	231.8	245.4	249.0
Games, toys and hobbies spending, USD per capita	103.6	102.0	96.5	86.1	89.1	93.8	99.8	101.6
Sport and camping equipment spending, USDbn	2.2	2.2	2.1	1.9	2.0	2.2	2.4	2.5
Sport and camping equipment spending, USD %	1.77	-0.52	-2.59	-8.96	5.57	7.33	8.28	3.67
Gardens, plants and flowers spending, USDbn	4.8	4.7	4.6	4.2	4.4	4.7	5.1	5.3
Gardens, plants and flowers spending, USD %	1.77	-0.52	-2.98	-9.15	5.35	7.12	8.08	3.49
Pet food/products and vet fees spending, USD %	1.77	-0.52	-6.18	-10.79	3.46	5.24	6.26	1.82

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Personal Care Spending

Personal care & effects is a significant sub-sector in the Canadian market, posting some USD21.6bn of spending in 2015. Spending has declined in US dollar terms since 2012 (when it was USD29.4bn), with a contraction also seen in local currency terms. Of this amount, the majority is spending on personal care products (USD16.5bn in 2015). The personal care sector is highly matured in Canada meaning that future growth will largely be in line with wider growth in household income and lacking a catalyst for more substantial growth. As such we expect to see growth in USD terms from 2016 onwards, with total personal care & effects spending forecast to reach USD26.7bn (CAD30.7bn) by the end of the forecast period in 2019.

PERSONAL CARE SPENDING (CANADA 2012-2019)								
Indicator	**2012**	**2013**	**2014e**	**2015f**	**2016f**	**2017f**	**2018f**	**2019f**
Personal care and effects spending, CADbn	29.4	29.8	28.5	27.2	27.8	28.8	30.1	30.7
Personal care and effects spending, USDbn	29.4	28.9	25.8	21.6	22.5	24.0	26.1	26.7
Personal care and effects spending, USD % y-o-y	1.72	-1.60	-10.75	-16.53	4.18	7.02	8.77	2.01
Personal care and effects spending, USD per household	2,108.1	2,053.0	1,814.0	1,493.3	1,534.7	1,620.6	1,739.7	1,752.1
Personal care and effects spending, USD per capita	843.2	821.2	725.6	599.7	618.8	656.1	707.2	715.1
Personal care products spending, USDbn	22.5	22.1	19.8	16.5	17.2	18.4	20.0	20.4
Personal care products spending, USD % y-o-y	1.26	-1.49	-10.58	-16.43	4.12	6.93	8.66	1.96
Personal effects products spending, USDbn	6.9	6.8	6.0	5.0	5.2	5.6	6.1	6.3
Personal effects products spending, USD % y-o-y	3.26	-1.97	-11.30	-16.87	4.40	7.32	9.12	2.16

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