

Perspective

ECONOMIC ANALYSIS REVIEW

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TRADE SECTOR SPECIAL

An Overview

Much maligned and underestimated

Issues

A driver of change in the economy



Desjardins
Economic Studies



DESJARDINS GROUP



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NOTE TO READERS: In this text, the symbols **M** and **B** are used respectively to refer to millions and billions of dollars.

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EDITORIAL

Trade sector: A misunderstood sector

With its reputation for low wages, unstable jobs and lousy schedules, the trade sector gets a bad rap. But this is not the whole story. In Québec this sector consists of 40,000 businesses and provides about 650,000 jobs. Last year, it accounted for 12.3% of Québec's GDP. The wholesale trade industry, whose main activity is to sell large volumes of goods, is misunderstood. However, a distinction should be made between the wholesale industry, where 90% of the jobs are full time, and its retail counterpart, where only 66% of employees have full-time jobs.

The number of businesses in the trade sector has plummeted since the beginning of the decade both in Québec and in the rest of Canada as giant retailers have steamrolled many mom-and-pop shops out of business. That said, jobs have progressed at a good pace, growing 20.9% from 2000 to 2007 in Québec. This trend has been observed almost everywhere in the country, from coast to coast. The industry is changing quickly, with new shopping concepts popping up every other day. Big changes are also taking place on the wholesale side, where mergers and acquisitions have created powerful new players that are affecting retail trade.

At the same time, the war is on for the consumer dollar. American and European banners are capturing a growing share of the market, which will likely force many merchants to close their doors. At a time when the Québec population is growing very slowly, getting older and going deeper into debt, sales growth will only be achieved by eating into the competition's market share. The race is already well underway to figure out consumer needs and see who can best meet them. Commercial arteries are gearing up to try and keep people shopping in the neighbourhood, while mega centres are spending massive amounts of money in an attempt to redefine the general store concept.

These challenges are compounded by a growing shortage of manpower. A low birth rate and heavy demand for workers in all sectors of the economy are making recruitment especially tough. At about 30%, the annual turnover rate is a bane for merchants, who must constantly train new workers, who in turn must serve increasingly informed and demanding consumers. And if Emploi-Québec estimates are to be believed, the situation will only get worse as the retail sector will need 76,000 additional workers by 2016.

Brick-and-mortar merchants must also contend with the Internet. For the moment, online shopping has taken only a small bite out of Canadian retail sales. Although the number of Internet shoppers is still quite small, according to Statistics Canada sales have grown by more than 10% over the last six years. While they may not be buying online, a growing number of consumers are surfing the Net to compare prices and product offerings.

For these reasons, the trade sector will see its growth pace slow considerably from the breakneck speed recorded since the beginning of the decade. Although the industry can certainly accommodate a variety of shopping concepts, the battle for survival will be fierce and it is unrealistic to think there will be no casualties.

François Dupuis
Vice-President and Chief Economist

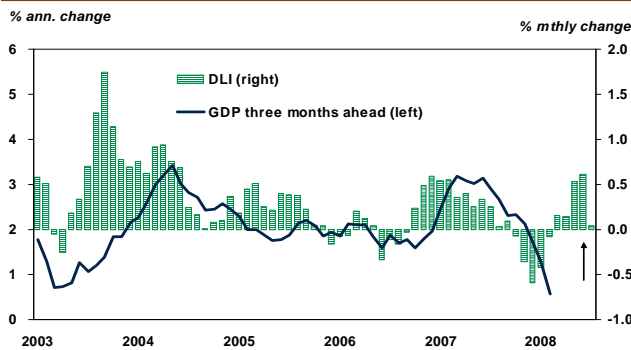
THE SITUATION IN QUÉBEC

Stagnation to continue

The Québec economy has been sluggish since mid-2007 and few signs point to a recovery in the near term. The surge in oil prices, which peaked last July, created some doubt as to consumers' ability to keep the economy afloat. High fuel prices threatened to eat up much of the positive impact of the tax relief provided at the beginning of the year. Although this threat has faded, it is taking some time for consumer confidence to rebound. The labour market's recent deterioration, though slight, could be just as damaging to the economy, if not more so. At a time when the decline in exports is deepening, the main pillar supporting domestic demand—consumer spending—could slow. Québec's economy is currently at a near standstill and it could take some time for it to emerge from this critical period.

In line with the economic statistics released recently, the Desjardins Leading Index (DLI) fell to neutral in July, indicating that the current stagnation could last a few more months. The DLI is not providing any clear signals on the direction the economy will take next (Graph 1). The 0.2% increase in real GDP in June on the heels of a 0.5% tumble in May and a 0.8% gain in April all point to a stuttering economy. Economic growth could firm up a tad by year-end but for now we can take nothing for granted. In light of a tougher-than-expected start to the year and the economy's deterioration since then, forecasts were revised downward. Real GDP growth will only be 0.5% this year (0.8% forecast in August), its weakest performance since 1992. Next year's growth forecast is also more modest, down from 1.7% to 1.3%.

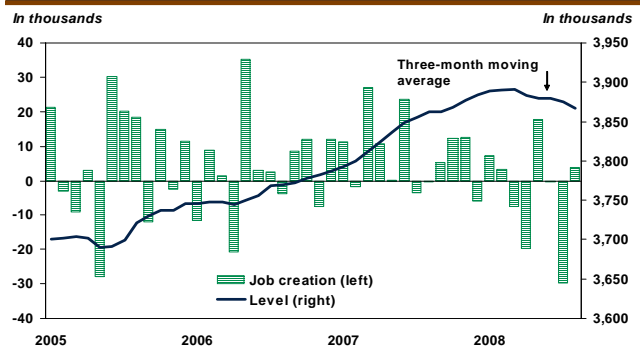
Graph 1 – Desjardins Leading Index takes a breather: Sluggish period could be protracted



Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

The economy has been nearly stagnant since mid-2007, and the situation finally had an impact on the labour market this year. After a succession of gains and losses over the last few months, the employment level finally levelled off, even pulling back slightly (Graph 2). In fact, the service sector, which has been fuelling job creation for several years, has been struggling lately. The labour market therefore seems to have lost the support that was helping to offset the job cuts in the manufacturing sector. The increase in the unemployment rate, which climbed from a low of 6.8% in January to 7.7% in August, is just as worrisome. However, it is still low, historically speaking, and well off the 14.2% peak reached during the recession of the early 1990s. So is this weakness on the employment front a temporary stumbling block or a more serious downturn? The next few months will tell. Moreover, future growth could help make the difference between resistant and somewhat more relaxed consumers.

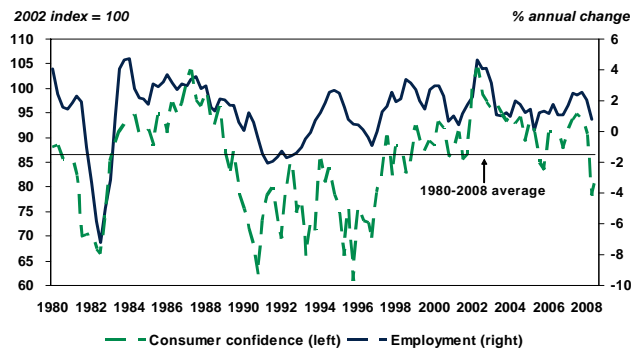
Graph 2 – Temporary labour market weakness or more serious downturn?



Sources: Statistics Canada and Desjardins, Economic Studies

Consumer confidence also bears monitoring, having moved out of the comfort zone this summer. Surging gas prices, which in July hit almost \$1.50 a litre in Montréal, sent consumer sentiment tumbling to its lowest point since the summer of 2005 (hurricanes Katrina and Rita). Although fuel prices have fallen since then, confidence has still not fully recovered. It appears that the weakening employment situation has come into play, preventing confidence from recovering to above its historical average (Graph 3). This is another factor that signals softer consumer spending in the months ahead. However, this is nothing like the drop seen in the early 1980s and 1990s, which was in line with a much deeper deterioration in the labour market and interest rates that were much higher than today. Still, if employment and confidence weaken anymore, consumer spending may very well start to fall.

Graph 3 – Reduced confidence coincides with job slowdown



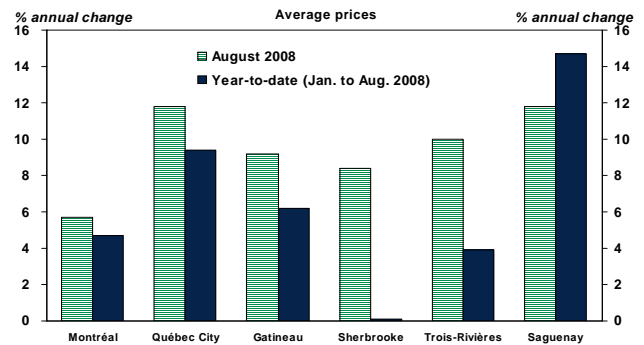
Sources: Conference Board, Statistics Canada and Desjardins, Economic Studies

In Québec, the housing sector seems to be nowhere near the slump taking place in the U.S. Although home prices have been rising at a slower pace since the start of 2008, the increases are still above 5%. This contrasts with the collapse in values in the United States as well as with the market stabilization observed nationwide. In fact, after several years of overheating in western Canada, in July prices began to pull back in Calgary, Vancouver and areas of Ontario hard hit by the struggling automotive sector. These adjustments put an end to rising prices in Canada, which greatly increased household wealth in the last few years. In Québec, the market is slowly returning toward equilibrium, and as such, the price drops associated with a surplus are not likely to happen. We thus expect growth of 4.5% this year and 2.7% the next. Unlike the rest of the country, the wealth effect associated with property appreciation will continue to strengthen households' financial situation. This is an asset for the Québec economy and, more importantly, one less risk for consumers.

To date, none of Québec's six metropolitan regions have seen housing prices fall (Graph 4). However, with prices stable since the beginning of the year, the housing market in Sherbrooke is the least tight in the province. The biggest price increase has been recorded in Saguenay—nearly 15%—as demand outstrips supply. Prices were up about 10% in Québec City, 5% in Montréal and somewhere in between these two figures in Gatineau. Trois-Rivières has been at around 4% since the start of the year. In short, aside from a period of stagnation in Estrie, Québec's major cities are not seeing home prices drop to the extent of some other areas in the country. Given that the sales-to-new-listings ratio is far from indicating a surplus (Graph 5), the risks of prices falling are very low at the moment. Only a major deterioration in the labour market, a surge in interest rates or tighter credit conditions could cause this situation to change.

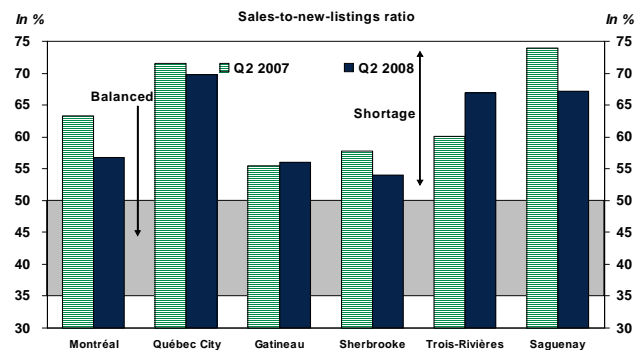
Detailed forecasts are on page 21.

Graph 4 – Sustained price increases



Sources: Fédération des Chambres immobilières du Québec and Desjardins, Economic Studies

Graph 5 – Slight shortage remains in major markets



Sources: Fédération des Chambres immobilières du Québec and Desjardins, Economic Studies

The decline in international shipments of goods that began in 2007 has spread into this year. Shipments fell 2.9% in real terms from January to August compared to the same period a year ago. The Canadian dollar's decline will give exporters a bit of a break. However, even at this level, the situation will remain tough. Given that the U.S. economy will remain sluggish, with domestic demand expected to border on stagnation through 2009, it will take some time for international exports to rebound. As such, they will slide for a second straight year, then stabilize in 2009. This means that Québec's trade deficit, which is already over its record \$20B (in 2002 dollars), is not about to come down.

Hélène Bégin
Senior Economist

THE SITUATION IN ONTARIO

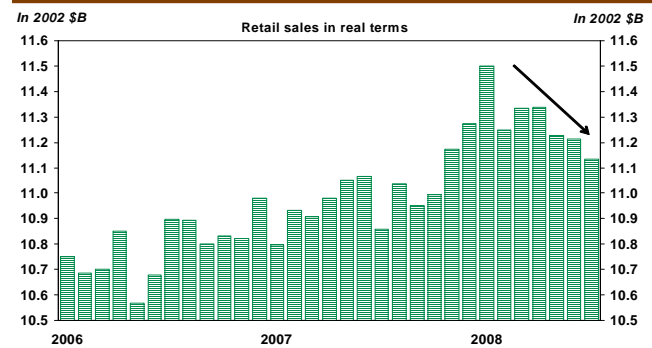
Uncertain economic outlook

The results released in the past few months show a 1.6% decline in Ontario's real GDP for Q1 of 2008, and a slight increase of 1.4% in the second quarter. Consumer spending only rose 2.4% on average, while residential and non-residential investments were highly volatile. It appears that the sluggish climate will continue in the second half of 2008 and real GDP could well decline again before the year is out.

Most economic indicators also confirm that Ontario's economic problems have not yet been resolved. The labour market lost 28,800 jobs between June and August. In real terms, retail sales were down 3.5% on average in the second quarter. Among other things, the number of new vehicles sold in Ontario fell by about 1.0% last spring. If we also take into consideration the substantial drop in new car sales elsewhere in Canada, as well as south of the border, it becomes clear that the outlook for the automotive industry is not good. Along with these cyclical considerations, the automotive industry must also overcome a structural slowdown due to the restructuring of North America's Big Three automakers. Given that this industry is especially concentrated in Ontario, it is being heavily affected by this twin problematic.

However, it is not only the automotive industry that is being hurt by the current gloomy climate. The adverse impacts of the strong loonie and slowdown in U.S. demand are reverberating throughout the manufacturing sector. Of manufacturing's 11 sectors, 8 recorded declines in their

Graph 7 – Consumer spending falls in Ontario



Sources: Statistics Canada and Desjardins, Economic Studies

output in 2007 and early 2008. The decrease in production even goes beyond the boundaries of the manufacturing sector: the mining, construction and wholesale trade industries have also run into substantial difficulties in recent months.

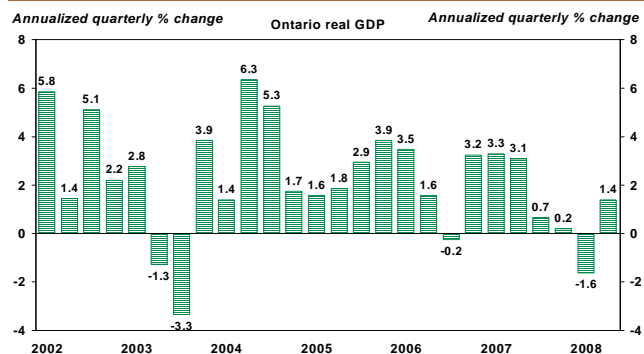
As Canadian economic growth is not expected to pick up until the fourth quarter, the sluggish climate could continue to spell trouble for Ontario's real GDP until the end of the year. This means that real GDP growth will be close to nil for 2008. As the outlook starts to brighten in winter, growth should accelerate in 2009 with an increase of 0.9% in real GDP.

Graph 8 – Most of Ontario's manufacturing sectors are in recession

	Real production (% change)			
	2005	2006	2007	2008: Q1
Manufacturing overall	-0.4	-3.9	-3.2	-14.9
Food, beverage and tobacco	2.0	0.6	-2.9	2.3
Textile, clothing and leather	-10.2	-8.7	-1.2	-26.6
Wood products and furniture	-1.2	-2.5	-4.1	-12.6
Paper and printing	0.5	-13.0	-1.1	-12.0
Chemical and petroleum products	-2.5	-3.1	-3.8	-5.2
Rubber and plastic products	0.2	-2.9	-4.3	-22.0
Primary metal transformation and metal product manufacturing	-0.4	-7.1	-2.3	-10.6
Machinery	5.7	-6.5	4.2	2.8
Electrical and electronic products	-0.2	3.0	0.6	-9.3
Transportation equipment	-1.9	-4.1	-2.8	-33.0
Other manufacturing	0.9	2.8	-3.7	-8.3

Sources: Ontario Finance Ministry and Desjardins, Economic Studies

Graph 6 – Ontario avoids recession



Sources: Ontario Finance Ministry and Desjardins, Economic Studies

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Detailed forecasts are on page 21.

AN OVERVIEW OF THE TRADE SECTOR

Much maligned and underestimated

With its reputation for low wages and part-time work, the trade sector gets a bad rap. However, this sector is about much more than just employment. Few know that in 2007, Québec's trade sector consisted of 40,000 businesses, provided 650,000 jobs and accounted for 12.3% of the province's GDP. These kinds of figures make it an economic heavyweight. While it has had its fair share of closings, the industry has fared quite well since the beginning of the decade in terms of job creation and investment. That said, it will have to work hard in the coming years to hold onto its gains. The aging population, new retail formats and technological changes are just the tip of the iceberg in the transformation underway. Will there be a place for everybody?

NOT JUST A BIT PLAYER

The trade sector has two components: wholesale and retail. While everyone knows the retail industry, the same can't be said of wholesale,¹ made up of establishments primarily engaged in wholesaling merchandise and providing related logistics, marketing and support services. There are two main types of wholesalers: wholesale merchants and wholesale agents and brokers. In terms of jobs and number of businesses, the latter represents a much smaller portion than wholesale merchants.

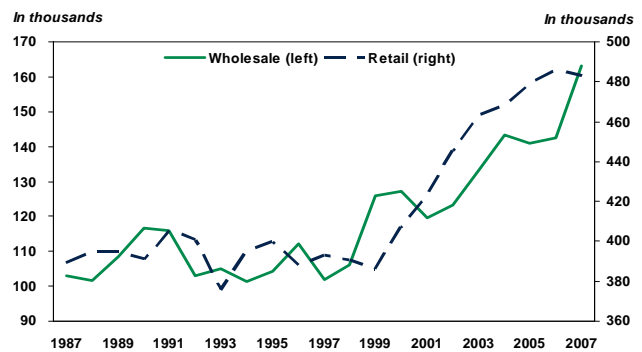
In Québec, the retail sector outperformed the wholesale side in 2007, posting GDP growth of 6.6% and 5.7% respectively and together accounting for 12.3% of the province's GDP, compared to 10.4% in 2000. The increase stems from the vitality of both sectors. In fact, since the beginning of the decade, the trade sector has been packing a bigger punch for a variety of reasons. While it's true that the manufacturing industry's decline has left more room for the other pillars of the economy, this is not the main reason for the trade industry's success. Between 2000 and 2007, Québecers' personal disposable income rose almost 3% annually and 449,000 jobs were created, or an average of 64,000 per year, meaning as many consumers with fatter wallets, the perfect combination for growth.

OVER 100,000 JOBS CREATED SINCE 2000

The trade industry has been on a hiring spree since the beginning of the decade, with the number of workers rising from 534,200 in 2000 to 646,000 in 2007, an increase of 20.9% versus the provincial average of 13.2%, all sectors combined, and 19.1% in the service sector. Graph 9 shows the sharp increase in both retail and wholesale, notwithstanding the drop on the retail side between 2006 and 2007.

In 2007, the wholesale industry employed 163,000 workers, one third as many as on the retail side (483,000). The proportion of wholesale jobs in the entire trade sector advanced from 23.8% in 2000 to 25.2% in 2007.

Graph 9 – Substantial growth in Québec retail and wholesale jobs since 2001

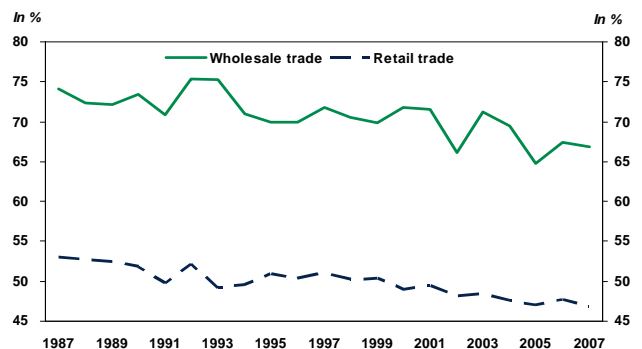


Sources: Statistics Canada and Desjardins, Economic Studies

IS THE WHOLESALE TRADE INDUSTRY FOR MEN ONLY?

More men than women work in wholesale trade. According to Statistics Canada's Labour Force Survey (LFS), men held about 68% of these jobs in 2007. A fact worth mentioning is that this figure was close to 72% just seven years ago (see Graph 10). On the retail side, women predominate, accounting for about 53% in 2007, versus 51% in 2000. In the last 20 years, the proportion of women has grown in both sub-sectors.

Graph 10 – Greater percentage of men working in wholesale as opposed to retail

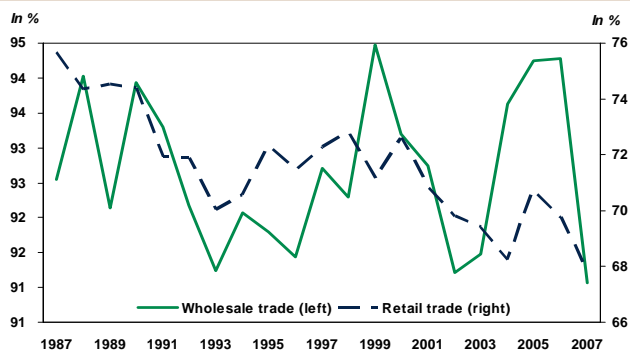


Sources: Statistics Canada and Desjardins, Economic Studies

FULL-TIME JOBS COME OUT AHEAD

When it comes to jobs, the general perception is that you can forget about finding a full-time job in the trade sector. But this is not entirely true. Over 90% of the jobs in the wholesale industry are full time (see Graph 11) while the proportion for retail is 66%.

Graph 11 – Wholesale sector outpaces retail in terms of full-time jobs



Sources: Statistics Canada and Desjardins, Economic Studies

StatCan’s figures on the average weekly hours of salaried employees substantiate these percentages. In 2007, the Canadian average was 31.2. In the service sector, the average was 28.7, while in the wholesale and retail trade sectors it was 33.6 and 26.2 respectively. The retail figures are strongly affected by the fact that students, who make up a large proportion of the workers in this industry, often do not work more than 20 hours a week, as well as by seasonal jobs, which are a characteristic of retail (Christmas, summer vacations). Still, there’s no denying that part-time work is becoming increasingly prevalent, particularly in the past 20 years.

A REPUTATION FOR LOW WAGES

The trade sector also has a reputation for low wages. Because many of the jobs—particularly in retail—are part time, it is difficult to make comparisons on a weekly basis, and therefore average hourly wages are used as the basis for comparisons. In Québec, the average hourly earnings for all salaried employees were \$19.35 in 2007, compared to \$19.10 in the service sector and \$14.51 in the trade industry (see Table 1). The same pattern emerges for median income, i.e., the point at which exactly half of one group earns less and the other half earns more. In the trade sector, the median wage was \$12 in 2007 or \$5 lower than the Québec average. Since most young people, students or not, get their first jobs in retail, where little or no qualifications are needed, it’s not surprising that hourly wages are below average.

Table 1 – Hourly wages are still below average

Annual	Québec avg in \$ per hour	Services	Trade (whsle & retail)
1997	15.32	15.25	11.53
1998	15.49	15.40	11.79
1999	15.72	15.68	12.11
2000	16.07	15.97	12.20
2001	16.63	16.54	12.53
2002	16.97	16.86	12.67
2003	17.42	17.24	12.96
2004	17.99	17.73	13.42
2005	18.43	18.22	14.00
2006	18.87	18.67	14.06
2007	19.35	19.10	14.51

Sources: Statistics Canada and Desjardins, Economic Studies

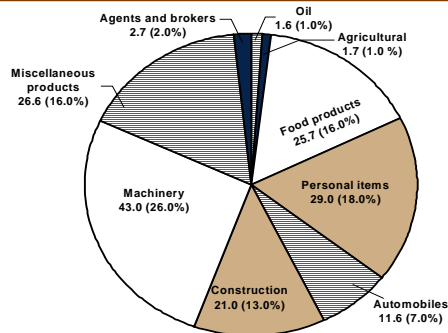
And since they have little work experience, young people cannot demand higher wages. Moreover, some retailers pay commission and thus intentionally keep base salaries low. This practice is intended to spark employees’ competitive spirit and fuel sales. Others offer their employees benefits that don’t show up on their pay cheques, such as merchandise discounts. Thus, although it is true that retail wages are below average, there are many reasons to explain this situation.

THE TWO SECTORS ARE NOT IDENTICAL

As graphs 12 and 13 clearly show, retail and wholesale activities are quite different from each other. While one quarter of wholesale jobs involves selling machinery, on the retail side, one quarter of the jobs is in food services.

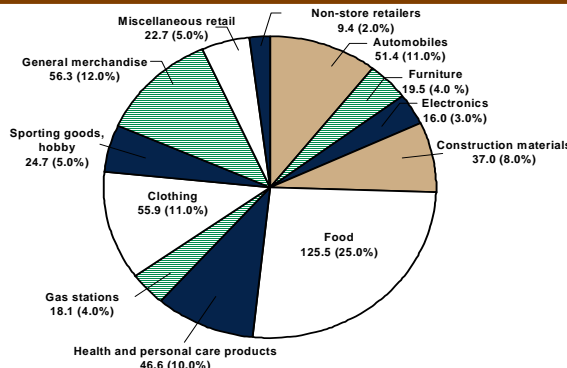
In wholesale, three sub-sectors share second place, accounting for 25,700 to 29,000 workers in 2007: personal goods, miscellaneous products and food products. On the retail side, second place is also shared by three major groups: general merchandise, clothing and automobiles, which accounted for between 51,400 and 56,300 jobs.

Graph 12 – Breakdown of wholesale trade jobs by sub-sector in 2007 (in thousands and %)



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 13 – Breakdown of retail trade jobs by sub-sector in 2007 (in thousands and %)



Sources: Statistics Canada and Desjardins, Economic Studies

Moreover, while the ratio of retail to wholesale jobs is almost 3 to 1, the ratio of retail to wholesale businesses is 2 to 1. Table 2 shows a comparison of the retail and wholesale sectors. According to Statistics Canada’s Business Register, the number of wholesalers and retailers fell 8.9% and 10.6% respectively since the beginning of the decade. Yet the number of jobs climbed by 28.4% from 2000 to 2007 in wholesale and 18.7% in retail. This sector, like others, was consolidated through mergers and acquisitions, meaning that the number of businesses decreased without affecting the total number of jobs.

On the wholesale side, small businesses with 5 to 49 employees accounted for most of the decrease. For their part, the number of larger businesses rose: companies with 100 to 199 employees (+70.6%); 200 to 499 employees (+130%) and 500 employees or more (+72%).

In retail, statistics confirm the trend towards larger stores. From 2000 to 2007, many small operations (fewer than 49 employees) had to close their doors. However, larger stores saw their numbers increase: stores with 50 to 99 employees (+8.1%); 100 to 199 (+25.0%); 200 to 499 (+62.8 %) and 500 employees or more (+15.4%). Therefore, the perception that the number of Québec businesses has declined since the beginning of the decade is accurate; however, those that remain employ more workers than before.

INVESTMENTS: THE LINCHPIN

The last two decades of changes in the trade sector have cost a lot of money. Beyond the cost of revamping stores on an increasingly frequent basis, both retailers and wholesalers have had to invest to adapt to new realities. These innovations are in response to new consumer buying habits, the competition, or the application of new technologies to inventory tracking, marketing or HR management. They have also revolutionized communications with financial institutions in the area of data transfer.

The wholesale industry had to act quickly because many of these new technologies were already being used by manufacturers. Getting up to speed became necessary to keep pace with the competition. Bigger warehouses had to be built to meet the needs of the ever larger retailers born out of the growing number of mergers and acquisitions that have characterized the last 20 years. From 2000 to 2007, average annual investments in the wholesale trade reached \$933.5M and \$1.383B on the retail side. Although it is difficult to discern a trend in retail, investments in the wholesale trade have taken the form of cycles of about every five years since 1991. However, since the pace of change is picking up, these cycles could get shorter in the next few years.

To stay in business, the trade sector will have to continue investing year in, year out. Moreover, with the increasing number of trade alliances, you have to be able to speak the same language as your new partners. Those best attuned to the markets and able to detect changes in consumer moods will not be taken by surprise. In 2007, a CROP survey conducted for the Conseil québécois du commerce de détail (CQCD) showed that about 60% of consumers are motivated by pleasure, status buying, experimentation and adventure. The remaining 40% base their choices on usefulness and security. Most buyers are therefore “looking for a thrill” when they shop.

Table 2 – Number of wholesale and retail businesses, 2000 and 2007

Number of businesses	Number of employees								Grand total
	0 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 199	200 to 499	500 or more	
Wholesale									
2000	7,963	2,314	1,920	1,445	357	102	30	18	14,149
2007	8,236	1,772	1,270	950	382	174	69	31	12,884
Retail									
2000	17,501	5,645	3,701	2,148	664	196	43	39	29,937
2007	16,361	4,858	2,614	1,841	718	245	70	45	26,752

Sources: Business Register, Statistics Canada and Desjardins, Economic Studies

THE RACE IS ON

The trade sector is changing at lightning speed. Less than 80 years ago, the “Liquor Commission” was selling liquor from behind a screened counter where customers had to place their order with a clerk, who wrapped the bottle in brown paper. Today you can buy alcohol at any SAQ store, in grocery stores, convenience stores and even online; there are also wine and beer hobby stores. All these changes are not solely due to changes in mentality; they reflect the upheavals that have rocked the trade sector.

The structure of the retail industry has changed somewhat and this has affected the wholesale trade. The reverse is also true. The changes have been in phases. For example, the commercial artery (often the main street in a town or village) was, for a long time, the only way to do business. The 1950s saw the emergence of shopping centres, a type of structure that was supported by the growth of suburbs and roadways. With more

and more households owning cars, consumers suddenly saw their shopping horizons expand. Table 3 shows the different forms of commercial areas and how they evolved. Over time, shopping centres took on different dimensions depending on whether they were designed to serve the neighbouring area, several neighbourhoods or an entire region. New concepts were introduced every year, with the new stores affecting their predecessors, taking a bite out of their profits but without, however, forcing them out of business.

After shopping centres came the big-box stores, exemplified by Wal-Mart and discussed in greater detail in the next article. However, other well-known Québec, Canadian and foreign banners have carved themselves a solid place in the Québec retail market, for example, retailers like Costco, hardware stores like Rona, Réno-Dépôt and Home Depot, and supermarkets like Loblaw’s, Super C and IGA extra.

Table 3 – Typology of various types of shopping centres

<i>Type of shopping centre</i>	<i>Surface area (thousands of ft²)</i>	<i>Number of stores</i>	<i>Specific characteristics of the offer</i>	<i>Clientele attracted</i>
Shopping street	Varies from store to store	Density ≥ 10 stores / km of road (average = 32 stores / km)	Mix of stores and services; mix of modes of travel for shopping	People living nearby and those passing through—strong proportion of foot traffic
Neighbourhood shopping centre	<14,000	5 to 14 (incl. one large-size supermarket or drug store)	Products and services used on a daily basis	People living nearby—foot and automobile traffic
Community shopping centre	14,000-56,000	15 to 99 (at least one national dept. store)	Daily and frequent needs: clothing, footwear, etc.	People living nearby or in adjacent areas—served by PT*
Regional shopping centre	50,000-90,000	100-199 (at least 2 national dept. stores)	Wide range of all sorts of products	Regional clientele—access by car and PT*
Supraregional shopping centre	>80,000	>200 (several national dept. stores)	Very wide range of products and services	Customers attracted from outside city limits
Warehouse store	>4,600	One main entity, which may rent out space to specialized boutiques	Mixed or specialty merchandise within a line of products	Local and regional clientele (depending on the size and specialty of the store)—accessible mainly by car
Mega business centre	>25,000	Several adjacent warehouse stores	Conglomerate of warehouse stores with a few smaller stores of the same style	Regional and possibly supraregional clientele—highway access

* Public transit

Source: Service de développement de la Communauté métropolitaine de Québec, 2005

Mega or power centres, made up of three or more big-box retailers, made their first appearance at the end of the 20th century and early this decade. Made up mostly of big retail banners, these centres do not have any independent retailers. Power centres are typically located along highways with parking lots so huge you sometimes need to drive from one store to the next.

More recently, a new kind of shopping format has emerged—the lifestyle centre. How is it different? Going beyond traditional shopping centres, it is somewhat like going “back to basics.” In fact, lifestyle centres try to recapture the main street concept of yesteryear where you found both stores and services. The best example of this concept is Quartier Dix30 in Brossard. What sets this centre apart from the others is what is referred to in marketing as “packaging.” For its part, the Faubourg Boisbriand, located at the intersection of auto-routes 15 and 640, offers “a whole new shopping experience” with its combination of mega centre, residential housing and office towers.

MANY ARE CALLED, BUT FEW ARE CHOSEN

With all these different ways to attract consumers, you have to wonder whether there’s room for everyone. In the city, we know that the winners of the retail war are those that were able to adapt to consumers’ changing needs. This war has taken a heavy toll, wiping out more than a few merchants, who lost their shirts to shopping centres.

Moreover, warehouse stores are wreaking havoc on regional and super-regional shopping centres, whose businesses are being pummelled by the arrival of these retail giants. With the proliferation of power centres and the ongoing battle to lure customers away from more traditional shopping centres, neighbourhood shopping centres are facing the biggest threat. In this regard, supermarkets, which are often the anchor in neighbourhood shopping centres, are especially vulnerable because warehouse and department stores (e.g., Zellers) are crossing category lines and offering a growing variety of grocery products.

The number of players is also shrinking as store surfaces increase. Supermarkets, discount stores and pharmacies are good examples. Still, it bears mentioning that 75% of retail stores in Québec have fewer than 10 employees. Will they be able to survive?

These new shopping concepts require consumers to use their cars more, increasing the cost of the shopping experience.

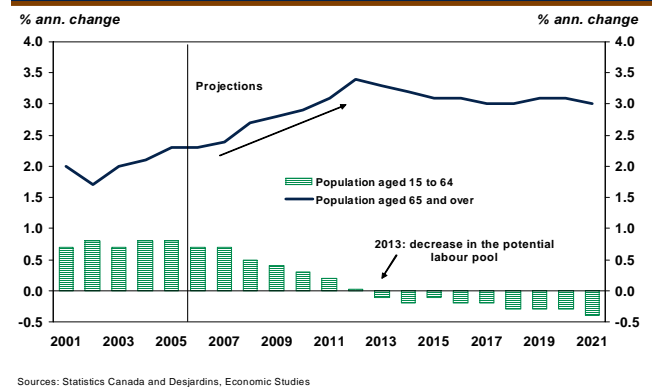
With the high cost of gas, consumers may start to think twice before traveling to outlying centres. Commercial arteries are trying to lure consumers back to the fold, while neighbourhood stores are attempting to work their way back into the wallets of local consumers. They will stay in business only so long as they can offer buyers what they want.

CHALLENGES ABOUND

Beyond the battle for visibility and drawing power, merchants are facing a whole other set of challenges. The changes will not only affect retailers, because the retail and wholesale trades are interdependent.

The demographic outlook is very modest, a situation that will create problems in terms of recruitment and sales growth. According to Statistics Canada’s estimates, Québec will see its working-age population (people aged 15-64) start to decline by 2013 (see Graph 14). Therefore, fewer people will have purchasing power fuelled by working income, meaning that the only way retailers will be successful is by chipping away at the competition’s market share. In fact, this is already happening in the food industry and increasingly in the pharmacy market.

Graph 14 – Growth in the population aged 65 and over will accelerate, while the 15-to-64 segment will soon decrease



Sources: Statistics Canada and Desjardins, Economic Studies

Sales growth opportunities are limited by the very modest demographic outlook for Québec, notwithstanding the arrival of immigrants, and are all the more so given residents’ high debt level and the high price of gas, which will erode household purchasing power. Moreover, motorists are not expected to get a break any time soon. Unless they can reduce their gas consumption, they will have to cut expenses elsewhere. A few years back, it was suggested that the spending would be

picked up by baby boomers, many of whom would soon come into their inheritance. However, this idea finds fewer takers today as life expectancy continues to rise and any money the boomers might inherit is more likely to be used to pay for lodging in a seniors' residence, nursing care, housekeeping, transportation and other services, rather than on consumer goods.

The greying of the population creates a different set of needs. At a time when people are trading their homes for a condo or a seniors' residence, the tendency is to spend carefully rather than impulsively. Besides, several experts, including HEC's Jacques Nantel,² feel that the baby boomers and future generations will have very different lifestyles, which will change things. For example, the individualistic nature of generations X and Y will limit the mass movements that gave rise to retailers such as Wal-Mart. Moreover, whereas baby boomers placed emphasis on accumulating wealth, today's people aged 45 and under tend to value the here and now. This could lead merchants to personalize their offer, requiring them to forge closer ties with their clientele. In short, retailers have their work cut out for them. So does this spell the demise of discount stores? The answer is no, but the "lowest price" will no longer be the sole criterion for a purchase.

Among the other battles facing Québec's trade industry is how to confront the growing competition from abroad. American banners are settling in quite comfortably in Québec, followed more recently by European retailers. Found in the apparel industry, large Spanish groups (Zara, over 500 stores around the world, Mango, in over 80 countries) and the Swedes (H&M, with 1,600 stores in some 30 countries) have set their sights on North America, where they plan to stake their claim.

From the looks of it, the battle will be fierce and there will be casualties. In addition to a tough socio-economic context, the competition will be heated. The unbridled spending of the last few years will slow for the reasons mentioned above. Merchants that will be able to face the onslaught unleashed by the competition will be those that can adapt to the demands and needs of their customers. Expect some stores to close and others to be swallowed up through mergers and acquisitions.

Joëlle Noreau
Senior Economist

¹ "The wholesaling process is generally an intermediate step in the distribution of merchandise; many wholesalers are therefore organized to sell merchandise in large quantities to retailers, and business and institutional clients. However, some wholesalers, in particular those that supply non-consumer capital goods, sell merchandise in single units to end-users." Source: Statistics Canada.

² Nantel, Jaques, September 28, 2006, "Le client de l'an 2000: baby-boomers vs génération XY" HEC.

ISSUES IN THE TRADE SECTOR

A driver of change in the economy

While it is accurate to say that the trade sector is dependent on demographic and economic events, it is also true that it can also be an economic locomotive. Indeed, service companies set up operations near the busiest stores. But beyond the location of services, we find that the trade sector is increasingly forcing the hand of manufacturers by requiring them to adhere to new standards. However, while it may impose its requirements, the trade sector also has to adapt to changes such as a labour shortage and the arrival of the Internet. What is the secret of those businesses that have managed to defy analysts' predictions? This month's edition of Perspective will try to answer that question.

HERE, THERE, EVERYWHERE

Where there's people, there's business. Whether you call it bartering, trade or buying, this activity is as old as the hills and found everywhere. In Québec every single region owes some of its vitality to the trade sector. That said, a survey of the regions by number of businesses places Montréal, Montérégie and Capitale-Nationale at the top (Table 4).

The change in the number of businesses between 2000 and 2006 speaks volumes about the vitality of the trade sector. For one thing, every Québec region saw the number of businesses on their territory decrease to some degree as the wave of consolidation swept through. Since demographics have a big impact on proximity services, regions experiencing strong population growth (mainly Laval and the Laurentians) suffered

fewer losses than areas such as Saguenay, Abitibi-Témiscamingue and Côte-Nord (Table 5).

A closer look shows that only Laval reported an increase in the number of retailers while the Laurentians was the only region to see new wholesalers set up on its territory. The latter's performance likely stems from the 20.6% drop in the number of wholesalers in Greater Montréal and Québec's sustained economic growth from 2000 to 2006. The Laurentians also probably fared well because heavy traffic on roads and highways in and around the downtown core makes merchandise transportation difficult. That said, Montréal is still the uncontested leader in wholesale with some 4,800 companies in 2006, followed by Montérégie with

Table 4
Number of businesses in 2006

Administrative region	Number of businesses		
	2006	W/Isle	Retail
Bas-Saint-Laurent	1,275	266	1,009
Saguenay-Lac-Saint-Jean	1,357	303	1,054
Capitale-Nationale	3,156	835	2,321
Mauricie	1,340	286	1,054
Estrie	1,510	388	1,122
Montréal	11,201	4,791	6,410
Outaouais	1,074	185	889
Abitibi-Témiscamingue	825	193	632
Côte-Nord	524	88	436
Nord-du-Québec	131	23	108
Gaspésie-Îles-de-la-Madeleine	679	94	585
Chaudière-Appalaches	2,198	573	1,625
Laval	1,907	733	1,174
Lanaudière	1,970	574	1,396
Laurentides	2,668	855	1,815
Montérégie	6,642	2,273	4,367
Centre-du-Québec	1,329	406	923
Québec overall	39,888	12,899	26,989

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Table 5 – Drop in the number of businesses from 2000 to 2006

Administrative region	Change from 2000 to 2006 (in %)		
	Total	W/sale	Retail
Bas-Saint-Laurent	-14.1	-13.9	-14.1
Saguenay-Lac-Saint-Jean	-18.5	-14.9	-19.5
Capitale-Nationale	-11.7	-17.2	-9.6
Mauricie	-14.0	-12.0	-14.5
Estrie	-9.8	-10.2	-9.7
Montréal	-14.1	-20.6	-8.4
Outaouais	-9.6	-17.0	-7.9
Abitibi-Témiscamingue	-16.2	-14.6	-16.7
Côte-Nord	-16.4	-20.7	-15.5
Nord-du-Québec	-6.4	0.0	-7.7
Gaspésie-Îles-de-la-Madeleine	-14.1	-8.7	-14.8
Chaudière-Appalaches	-7.5	-5.6	-8.1
Laval	-1.4	-1.0	4.7
Lanaudière	-6.2	-4.2	-7.1
Laurentides	-1.1	4.4	-3.5
Montérégie	-8.5	-6.5	-9.5
Centre-du-Québec	-11.9	-10.0	-12.8
Québec overall	-10.6	-13.3	-9.2

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

approximately 2,300. Together, these two regions are home to nearly 55% of all wholesalers in Québec. Table 6 shows the relative weight of the number of retailers in relation to wholesalers. A ratio of four or five means that the number of retailers is four to five times greater than the number of wholesalers in a given region. Since Montréal, Laval and Montérégie have low ratios, it can be assumed that they have more wholesalers on their territories than other regions.

Given that the number of businesses is shrinking, one would assume that jobs are disappearing as well; however, the opposite is true. In light of the variability of regional labour data, five-year averages were compared (Table 7).

WHEN THE TRADE SECTOR BRINGS ABOUT CHANGE

Regardless of the region, the trade sector is constantly changing, as the first article in this issue shows. However, what many people don't know is that this sector imposes constraints on its suppliers and on manufacturers. For example, in the 1990s the consolidation of a large number of independent grocers under the Métro banner forced the creation of a "wholesale" structure. Conversely, the Loblaw's group that bought Provigo changed the way the supermarkets did business under the new group. Since wholesale and retail are interdependent, what happens on one side affects the other.

More recently, in the pharmacy sector, the wholesaler McKesson, a global leader in procurement management and information technology for health products, tried to buy out Essaim (now Proxim) and will also try to bring Uniprix into the fold. This sector is in the throes of consolidation, mirroring

Table 6 – Ratio of retail to wholesale businesses

<i>Administrative region</i>	<i>2000</i>	<i>2006</i>
Bas-Saint-Laurent	3.8	3.8
Saguenay-Lac-Saint-Jean	3.7	3.5
Capitale-Nationale	2.5	2.8
Mauricie	3.8	3.7
Estrie	2.9	2.9
Montréal	1.2	1.3
Outaouais	4.3	4.8
Abitibi-Témiscamingue	3.6	3.3
Côte-Nord	4.7	5.0
Nord-du-Québec	5.1	4.7
Gaspésie-Îles-de-la-Madeleine	6.7	6.2
Chaudière-Appalaches	2.9	2.8
Laval	1.4	1.6
Lanaudière	2.5	2.4
Laurentides	2.3	2.1
Montérégie	2.0	1.9
Centre-du-Québec	2.3	2.3
Québec overall	2.0	2.1

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

what happened in the food industry in the 1990s and in hardware at the beginning of the 2000s. According to analysts, once the consolidation is over, you can expect to see pharmacy giants similar to those found in the food and hardware industries.

Table 7 – Average jobs in trade, in thousands

<i>Administrative region</i>	<i>Total</i>		<i>Wholesale</i>		<i>Retail</i>	
	<i>1998–2002</i>	<i>2003–2007</i>	<i>1998–2002</i>	<i>2003–2007</i>	<i>1998–2002</i>	<i>2003–2007</i>
Bas-Saint-Laurent	13.1	13.5	1.8	1.3	11.3	12.2
Saguenay-Lac-Saint-Jean	19.0	21.7	2.8	3.4	16.2	18.3
Capitale-Nationale	46.6	55.4	9.2	10.3	37.4	45.1
Mauricie	17.5	19.4	2.8	2.8	14.7	16.6
Estrie	17.1	21.3	2.5	3.4	14.6	17.9
Montréal	126.0	151.7	36.2	43.7	89.8	108.0
Outaouais	19.3	23.7	2.9	3.4	16.4	20.3
Abitibi-Témiscamingue	11.0	11.5	2.1	2.7	8.9	8.8
Côte-Nord and Nord-du-Québec	N.A.	N.A.	N.A.	N.A.	6.5	6.6
Gaspésie-Îles-de-la-Madeleine	N.A.	N.A.	N.A.	N.A.	4.9	5.3
Chaudière-Appalaches	25.4	29.7	5.4	6.0	20.0	23.7
Laval	33.2	36.2	9.4	9.6	23.8	26.6
Lanaudière	31.3	38.8	6.0	9.9	25.3	28.9
Laurentides	40.2	48.8	8.3	12.2	31.9	36.6
Montérégie	102.5	117.3	25.1	29.5	77.4	87.8
Centre-du-Québec	15.3	17.5	4.2	4.5	11.1	13.0
Québec overall	530.8	620.3	120.4	144.6	410.4	475.7

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

N.A.: Not available

The arrival of big-box retail stores has also affected manufacturers. These retail behemoths have imposed their requirements on goods producers to such an extent that a common expression has been coined called “the Wal-Mart effect.” This conglomerate has such purchasing power that it was able to force large manufacturers to change some product formats to meet Wal-Mart customer needs. The most famous example is consumer goods giant Procter & Gamble, which made many adjustments for Wal-Mart, and now accounts for some 15% of its sales. If the two are still doing business together, it’s because the relationship is mutually beneficial. However, many manufacturers tend to shy away from superstores because they don’t want to have to adjust their production processes or become overly dependent on a single client.

Lastly, Wal-Mart has also imposed its way of doing things on other retailers with the result that its workforce and procurement management practices have spread throughout the industry. In fact, according to experts in the field, Wal-Mart has the most sophisticated inventory management system in the world, allowing the company to get the most out of its suppliers. Many competitors are trying to imitate its practices in order to compete on equal terms.

RETAILERS EVEN AFFECT PURCHASING BEHAVIOUR

Mega retailers also have an impact on the buying habits of consumers, for example, their mode of transportation. These retailers typically have to drive to these retailers, which are located far from the downtown core. This takes them away from their local shopping centre or commercial artery. Moreover, to maximize their drawing power, warehouse stores have banded together to form “power centres” at highway junctions, where the size of the centre is so large that shoppers even have to drive from one store to the next.

One way to cut down on driving is to group everything under one roof. The concept of general store, where consumers can find everything and therefore only have to make one stop, is making a very strong comeback. Mirroring the Wal-Mart super centres, which vary in size from 100,000 to 260,000 sq. ft., this type of store offers consumers one-stop shopping, a place where they can find food, tires, furniture, medication and jewellery in one location.

Besides changes in consumer travel and buying habits, retail trade affects local, regional and national economies in terms of the choice of suppliers. When the overriding concern is low prices achieved by buying massive quantities from manufacturers, Québec SMEs do not always fare well. This is because the strength of our manufacturing sector is custom production, quality, speed of execution and proximity rather than volume.

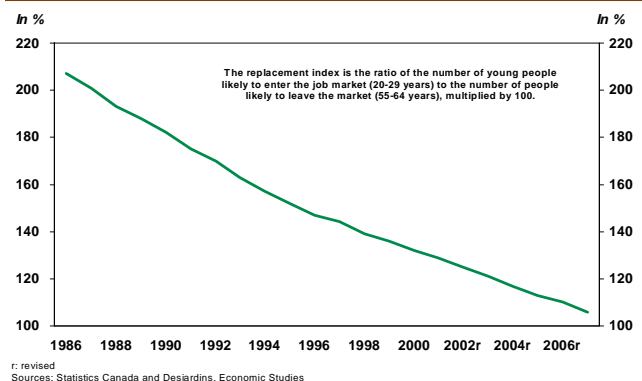
LABOUR: CHALLENGE OR PUZZLE?

Of all the difficulties merchants are facing, recruitment and worker retention are becoming the most pressing. As mentioned, stores are decreasing in number but increasing in size and hirings have surged in the last few years. Some speak of a scarcity, others of a shortage. Either way, low unemployment and a decreasing birth rate are reducing the potential labour pool. And the problem will not be resolved any time soon since according to Emploi-Québec, the retail industry will create the largest number of jobs by 2016, after healthcare. In fact, it is estimated that some 76,000 jobs could be created in Québec by retailers alone.

A look at the replacement trend rate¹ in Québec (Graph 15) explains why merchants are gritting their teeth as they struggle to recruit qualified candidates today. For many of them, the answer is to improve hiring techniques and to hold onto workers.

As regards recruitment, it appears that a growing proportion of the workforce is made up of immigrants and young retirees. One strategy being used by employers is to forge alliances with organizations to which these people belong. However, word of mouth still produces the best results. Another matter to consider is changes in people’s values, which affects the type of work they are prepared to accept. The results of a survey on working conditions unveiled in April 2008 at the conference of the Conseil québécois du commerce de détail (CQCD) showed that salary fell in importance from 31% in 2004 to 25% in 2007 while opportunities for advancement, which had reached 22% in 2004, fell to 13%. In contrast, work environments and good relationships with co-workers jumped from 4% to 20% during the same period. Is this the Generation Y effect? Not necessarily: people aged 55 and over who are still working or beginning a new career in retail may also be using other criteria besides salary and opportunities for advancement when looking for a job.

Graph 15 – Québec heading towards a shortage according to replacement index



EMPLOYEES: FLEETING OR LASTING?

According to a survey conducted by the Centre d'étude sur l'emploi et la technologie (CETECH) and the ISQ,² employee turnover³ in the retail industry was 34.9% in 2005 and 33.9% in 2006. Are these figures shocking? Not really, since the Québec average was 32.5% in 2006 (see Table 8). However, this average does not take into account public service jobs. The rate is of less concern when compared to the turnover in the construction, accommodation and restaurant industries (respectively 50.5% and 50.8%). However, a turnover rate of 33.9% means that one worker out of three leaves his employer in the lurch. This means that employers have to constantly worry about having enough employees to serve their customers.

The problem right now is how to attract new employees from a shrinking potential labour pool. According to a 2006 Québec retailing recruitment survey conducted by the CQCD, for about half of retailing hires, it costs up to \$500 to hire new staff, while 21% of hiring costs between \$500 and \$2,000 and 28% of hiring costs more than \$2,000. Sales is not the only type of position available; there are clerks, managers, supervisors and merchandisers, while on the wholesale side,

there are positions for storekeepers, warehouse attendants (stock handlers, packagers) and truckers. Finally, the *Comité sectoriel de la main-d'œuvre du commerce de détail*, [retail workers sector committee] estimated in the spring 2008 edition of *La Vitrine* magazine that “the turnover cost equals on average 35% of the departing employee’s annual base salary.”

INGENUITY IS THE ORDER OF THE DAY

If flexibility is needed with customers because “the customer is always right,” sheer ingenuity is required to recruit and retain employees. According to the experts, building employee loyalty requires much more than good pay, bonuses and gifts. Direct deposit is an asset that can easily be offered by financial institutions. Training offered by the employer, a referral system with compensation, opportunities for advancement, twinning new employees with older ones, and flexible or fewer work hours are other strategies that employers must explore.

In addition to recruiting young people and immigrants, employers are increasingly seeking out the 50+ group. Web sites dedicated to jobs for the 50+ group are growing every day. The ISQ has pointed out that early retirement does not make everyone happy and that some people would like to return to work. At a time when people are living longer, the number of potential candidates is increasing. According to the Institute, the life expectancy for people who turned 65 in 1985–1987 rose from 16.78 to 19.65 years in 2004–2006. That’s substantial! Rather than label older workers as more resistant to change and less productive, they are now valued for their punctuality, dedication, respect of rules, procedures and authority, as well as their sense of duty and loyalty.

At the same time, technology solutions have been developed to compensate for the recruitment problems and high turnover. As fierce competition is being waged between grocery stores, department stores and even pharmacies, the race is on to try and build customer loyalty by offering better service. However, a shortage of employees certainly does not help in this regard. This is why self-serve checkout has been successfully set up in supermarkets across North America. Customers scan their purchases themselves, place them in bags and pay either by cash, debit or credit card. This way of doing things cuts the waiting time for customers and reduces the number of cashiers required. While useful for convenience products, this method will not replace a good sales associate for custom products such as orthoses.

Table 8 – Labour turnover is high

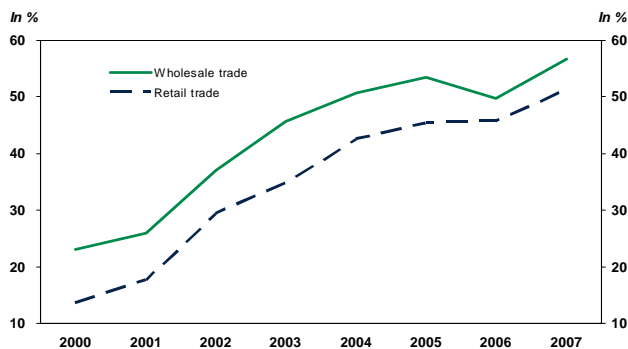
	2005	2006
High-tech manufacturing	14.1	16.3
Computer/electronic products	18.7	24.8
Pharmaceutical products	14.6	17.4
Aerospace products	10.9	9.6
High-tech services	21.1	22.7
Engineering, architecture & related svcs.	22.5	23.2
Computer system design	21.7	23.2
Scientific research & development services	17.5	20.6
Professional services	29.6	33.3
Construction	41.6	50.5
Manufacturing	20.4	23.9
Services	33.1	34.0
Trade	34.9	33.9
Transportation and storage	23.9	21.1
Finance, insurance, real estate	14.7	18.1
Business management	41.7	43.4
Information, culture and recreation	37.8	37.3
Accommodation and food services	43.9	50.8
Other services	25.7	27.2
Total	30.4	32.5

Source: CETECH, Enquête sur le recrutement et l'emploi au Québec, fall 2007

FROM WINDOW SHOPPING TO “ON-SCREEN SHOPPING”

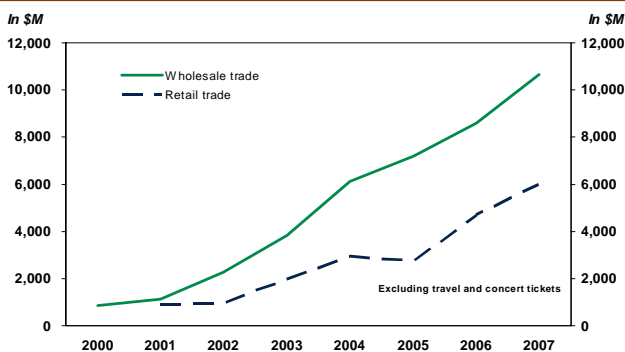
The advent of the Internet offers one more way to shop both at the retail and wholesale level. A blessing for some, a curse for others, electronic exchanges are here to stay. Amongst themselves, businesses have quickly taken to this type of trade, as attested to by the increase in the percentage of businesses buying online, illustrated in Graph 16. In this regard, the wholesale trade has jumped on the bandwagon faster than retail. Lastly, as Graph 17 shows, sales are rising sharply. These sales exclude travel services and concert tickets, highly valued by online shoppers.

Graph 16 – Percentage of businesses making online purchases rising in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

Graph 17 – Gross online sales rising in Canada



Sources: Statistics Canada and Desjardins, Economic Studies

Does this new way of business spell doom for traditional retailers? If Statistics Canada’s surveys are to be believed, “clicks have not yet replaced the bricks.”⁴ Although online sales grew in Canada in 2007 (an increase of at least 10% for the sixth straight year), e-commerce still accounts for just a fraction of the country’s economic activity. Last year, Statistics Canada estimated that online sales in the private sector represented less than 2% of total operating income. In 2003, this proportion was estimated at 1%.

Who are the buyers? Canada’s statistics agency says that in 2005, 6.9 million Canadians placed some 49 million orders totalling \$7.9 billion. These buyers represent 41% of Internet users and 28% of Canadian adults. Each online consumer placed an average of 7.2 orders online for a total value of \$1,150 (in 2005 dollars). The most popular purchases are travel services (36% of buyers), books and magazines (35% of buyers), entertainment products (25% of buyers), clothing, jewellery or accessories (25% of buyers) and software (20% of buyers). The largest online consumers represent 7% of Canadian adults and 75% of all online expenditures.

Given that wholesale and retail investments are growing, and hiring is on the rise, it does not look like e-commerce has managed to put brick and mortar stores out of business. Many had prematurely announced the demise of traditional retail, fearing a decline in property development. However, music downloading seems to be the exception to the rule.

MERCHANTS ARE NOT OUT OF THE WOODS

Although online purchases account for only a small percentage of total household spending, virtual shopping is becoming all the rage. Statistics Canada estimates that 9.2 million Canadians are window shopping online, and are particularly interested in cameras, VCRs, DVD players (42%) and household appliances (39%). It seems they are looking for information on product characteristics and prices.

Is the Internet, which made its debut at the end of the 20th century, the modern version of the catalogue, introduced in the mid-1800s? In any event, the Web is a powerful tool to serve market niches ranging from special food products, collectible cars, books, antiques and more. Although older people are less likely to buy online, younger users are not likely to forego this medium when they get older. The Internet is also an important tool that can be used by merchants to personally reach consumers at a time when competition is heating up, concentration is increasing, and the markets are headed toward saturation.

LET THE GAMES BEGIN!

With consolidation and the proliferation of giant retailers, will there be any room left for the small merchant? Independent retailers or those that belong to banners that do not offer the variety of a general store still have their place, so long as they fight. It will be recalled that more than 75% of Québec retailers have fewer than 10 employees. Some have their stores in shopping centres, which are increasingly fighting back by boosting their advertising campaigns and activities of all types (free concerts, fashion shows, exhibitions, summer camp fairs, photo contests, special events, etc.) in a bid to update their image and raise their profile while showcasing their services.

Commercial arteries are gearing up for war in order to better equip their local stores. As such, a few years ago the Fondation Rues principales developed an “analysis tool for dynamic commercial streets” after it conducted a diagnosis.⁵ The Fondation also teamed up with the Ministère du Développement économique, de l’Innovation et de l’Exportation (MDEIE) to produce a document on the ideal composition of a commercial artery. According to the organization, commercial arteries “offer many advantages such as personal attention, excellent after-sales service as well as pleasant surroundings and environment (fresh air, vegetation, heritage buildings).” And it seems that as they age, people tend to prefer personalized service.

The Foundation’s recommendations touch areas that extend beyond strictly business interests. The strategy of shops along a commercial artery should be part of a bigger plan orchestrated by municipalities or local development agencies. The street

must also offer a good variety of products and services at reasonable prices, as well as parking and well-maintained surroundings, to name just a few. Some ideas to increase traffic include stores that offer products or services currently unavailable on the street and that set themselves apart by their ambiance, personalized service or by the way they receive customers. In short, they must offer something different than the big boxes and the stores downtown.

Differentiation seems to be a promising avenue. An excellent example is Couche-Tard, the death-dodger of the retail trade since it operates in the withering segment of convenience stores. According to an analysis conducted by Jacques Nantel,⁶ the chain’s basic principle is that every company must meet the needs of the customers it serves. As such, Couche-Tard operates each store as a separate unit, a strategy that runs counter to the standardization trend.

CONSUMERS AND COMPETITION FUEL THE TRADE SECTOR

The retail trade is a “mixed bag,” i.e., while it drives development, it is also dependent on demographic and economic changes. In some respects, it imposes its will on manufacturers, just as it obliges consumers to sometimes travel great distances to shop. In others, it is vulnerable as an employer, given the robust job market and aging population. It wears both hats, trying to keep its balance at a time of fierce competition. Nothing can be taken for granted: the competition will remain stiff, such that the number of players will definitely shrink in the years ahead.

Joëlle Noreau
Senior Economist

¹ The replacement rate is calculated as follows: (number of young people likely to enter the job market (20-29 years)) / (number of people likely to leave the job market (55-64 years)) x 100

² CETECH and ISQ, *Enquête sur le recrutement et l’emploi au Québec*, vol. 17, fall 2007, 64 pages.

³ According to CETECH and ISQ: “To do this, we add worker hirings and departures, and divide by employment in the sector being studied. The result is then divided by two to get the average labour turnover rate ((number of hirings + number of departures) / number of jobs) / 2,” *Enquête sur le recrutement et l’emploi au Québec*, vol. 17, fall 2007, page 6.

⁴ Statistics Canada, Sciadras, George, *Our Lives in Digital Times*, Connectedness Series No. 56F0004MIE in the catalogue, November 2006.

⁵ Fondation Rues principales, *Étude sur la composition commerciales des artères traditionnelles*, May 2004, 51 pages.

⁶ Jacques Nantel is professor at HEC, Montréal.

INTERPROVINCIAL SHOWCASE

Strong Canadian economy a boon to the trade sector

For the past few years, consumer spending has been a driver of Canada’s economic growth. Some of the spending has been on services and some on goods, which explains the increase in this sector’s sales. Since the early 2000s, the wholesale and retail trades have been playing an increasingly important role in the Canadian economy. How have these changes affected GDP, employment and wages? These are the questions we will try to answer in this issue of Perspective.

TRADE SECTOR IS BOOMING IN CANADA

The wave of change sweeping through the Canadian trade sector has affected all the Canadian provinces. Big banners have replaced many independent retailers and concentration has become widespread. Just as in Québec, we have seen the emergence of cross-channel selling, where pharmacies and big stores began selling food and where pharmaceutical and personal care products can be found in supermarkets and big-box stores. This overlapping of retail vocations has become so widespread that according to Statistics Canada “for the first time since 1998, food and beverages became the largest sales category for general merchandisers.”¹

However, nothing can be taken for granted. In 2007, according to Statistics Canada, the wind changed direction and most specialty retailers captured additional market share for their main product categories at the expense of general merchandisers. Does this mean that the pendulum has swung the other way? Is this because of demographic changes? Anything is possible. There is rarely just one explanation for these reversals.

With the trade sector constantly having to adjust to changes, one wonders whether the sector is growing or shrinking.

AN INCREASINGLY IMPORTANT ROLE

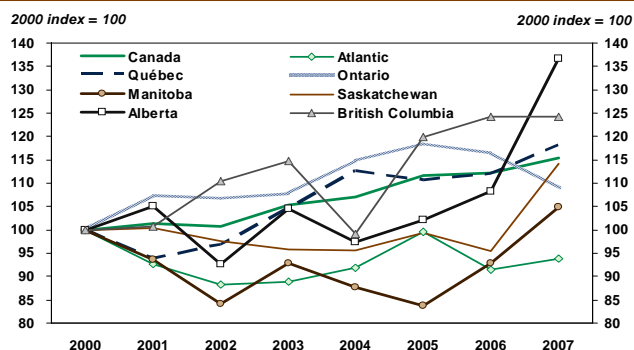
Since the beginning of the decade, wholesale and retail trade has played a bigger role in the economy of most provinces. A look at its share of provincial GDP shows that in Alberta and Saskatchewan, trade has grown despite the upheavals associated with oil exploration.

The situation in Ontario and Alberta differs from the other provinces, in that the wholesale trade GDP is greater than its retail counterpart, whereas the opposite is true elsewhere in the country. This is nothing new. In Alberta, the oil boom is not behind this trend, which was already entrenched at the end of the 1990s, when the price of oil was US\$15 to US\$20 a barrel. In Ontario, where the industrial structure is highly developed, the province’s location in the centre of the country and Toronto’s status as a metropolis have been conducive to the establishment of the wholesale trade.

INCREASED EMPLOYMENT

Just as in Québec, which has seen the number of jobs in the trade sector increase since the beginning of the decade, the other Canadian provinces have also seen the number of workers grow in this sector. However, there is a distinction to be made between wholesale and retail trade. In wholesale, (see Graph 18) the growth has been in central and western Canada, but not in the Atlantic Provinces. The average increase was 15.3% nationally between 2000 and 2007. Three provinces outperformed the others in this regard. At the head of the pack is Alberta (36.7%), whose growth was fuelled by oil exploration. It is easy to understand how the economic activity generated by the oil boom would push material suppliers to expand into such varied fields as construction, machinery, gas pipelines and vehicles. In second place is British Columbia, a hub for Asian imports and for Canadian raw materials bound for Asia. In the last two years, the total merchandise tonnage in the Vancouver port rose an average of 4%. Third place is held by Québec.

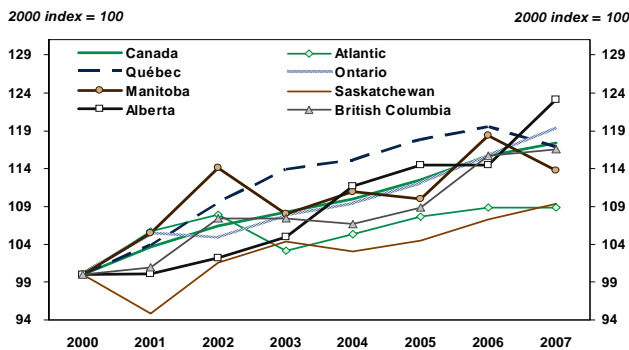
Graph 18 – Wholesale trade surged in Alberta



Sources: Statistics Canada and Desjardins, Economic Studies

On the retail side, employment rose everywhere across the country, including the Atlantic Provinces (see Graph 19). Growth was stronger in retail than in wholesale everywhere in the country. As such, between 2000 and 2007, retail jobs grew an average of 17.4% in Canada. Western Canada was not spared by the wave of consolidation that saw many small independents replaced by big banners. However, the number of workers increased, just as it did in Québec. All things being equal, Alberta had the highest growth rate. Still, job growth was weaker on the retail side than on the wholesale side (respectively 23.1% and 36.7%). It makes sense that the province's population growth would spark demand for wholesale and retail businesses and for the related manpower. From 2003 to 2007, the population rose an average of 71,500 per year in Alberta. The increase, however, was gradual, from 45,000 in 2003 to 103,400 in 2007. Alberta's population grew 3.1% last year, compared to the Canadian average of 1.0%.

Graph 19 – Retail job growth across the country



Sources: Statistics Canada and Desjardins, Economic Studies

Ontario is another province where retail job growth was extremely strong, with an estimated gain of 19.3%. At the same time, the population grew an average of 140,000 in the last five years. In contrast to Alberta, the annual gains in Ontario slowed, from 160,500 in 2003 to 98,500 in 2007. If the trend continues, retail growth in Alberta will outpace Ontario's by the end of the decade. As for the other provinces, job growth was below the Canadian average.

Table 9 - Average hourly wage

	Trade	Trade	All workers
	2007 \$ per hour	Change from 2000 to 2007 in %	Change from 2000 to 2007
Canada	15.39	20.0	22.5
Alberta	17.55	34.4	37.5
British Columbia	16.16	15.8	29.7
Ontario	15.66	16.4	20.9
Manitoba	14.70	18.9	23.0
Québec	14.51	18.9	20.4
Saskatchewan	14.35	24.8	29.0
Nova Scotia	13.55	30.5	25.1
New Brunswick	12.74	18.8	20.8
Newfoundland & Labrador	12.24	31.0	27.1
Prince Edward Island	11.89	26.5	26.4

Sources: Statistics Canada and Desjardins, Economic Studies

HOURLY WAGES: SUBSTANTIAL DIFFERENCES

In 2007, average hourly wages (wholesale and retail) in Canada's trade sector were \$15.39 (see Table 9). Three provinces fared better: Alberta (\$17.55), British Columbia (\$16.16) and Ontario (\$15.66). Since the beginning of the decade, hourly wages in the trade sector advanced 20% nationally. In Alberta, the increase was 34.4% during the same period. However, as demand for workers was greater in other industries (construction, oil and gas exploration, etc.), the average hourly wage in Alberta, all sectors combined, rose 37.5% in the same period. This means that the provincial wage surge was not as substantial in the trade sector.

Retail managed to grow in terms of jobs and importance in the Canadian economy since the beginning of the decade. However, as the population ages, some things will have to change. Demand for services may grow faster than for goods. Proximity services may begin to grow rapidly, causing job growth in the Canadian trade sector to lose some of its lustre over the next few years. Only time will tell.

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Senior Economist

¹ Statistics Canada, Mohammed, Abdulelah, *Retailers Competing for Market Share: 2007 Retail Sales in Review*, July 2008, Catalogue No.: 11-621-M2008075, p. 4.

FORECAST TABLES

Table 10
Canada: Major economic indicators

	2005	2006	2007	2008f	2009f
Annual average in % (except if indicated)					
Real gross domestic product*	2.9	3.1	2.7	0.6	1.3
Personal consumption expenditures	3.7	4.3	4.5	4.0	3.2
Residential construction	3.4	2.2	3.0	-1.6	(0.6)
Business fixed investment	12.1	9.9	3.5	2.3	2.4
Inventory change (\$B)	12.8	10.8	13.2	8.7	17.9
Public expenditures	2.7	4.1	4.2	4.6	4.0
Exports	1.8	0.6	1.0	-4.2	-3.1
Imports	7.1	4.6	5.5	3.0	3.3
Final domestic demand	4.4	4.8	4.2	3.5	2.9
Other indicators					
Real disposable personal income	2.6	5.5	4.1	4.1	2.2
Weekly earnings	3.2	3.0	3.2	2.5	2.1
Employment	1.4	1.9	2.3	1.5	0.7
Unemployment rate (in %)	6.8	6.3	6.0	6.1	6.4
Housing starts (in thousands)	225.5	227.4	228.3	215.4	195.0
Corporate profits** (1)	10.5	5.8	3.3	5.9	0.9
Personal savings rate (in %)	2.1	3.1	2.7	2.7	2.4
Total inflation rate (1)	2.2	2.0	2.2	2.6	1.8
Core inflation rate*** (1)	1.6	1.9	2.1	1.5	1.4
Federal gov't balance (\$B) (2)	2.1	10.2	15.4	3.2	10.3
Current account balance (\$B)	26.5	20.2	13.6	23.4	15.7

f: forecasts

* 2002 \$ ** Before taxes *** Excluding food and energy (1) Annual change (2) National accounts

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Table 11
Québec and Ontario: National accounts

	2005	2006	2007	2008f	2009f
Annual average in % (except if indicated)					
Québec					
Real gross domestic product	1.8	2.0	2.4	0.5	1.3
Personal consumption expenditures	2.9	3.1	4.4	4.2	3.2
Residential construction	-0.8	-0.7	5.7	-6.9	-1.5
Business fixed investment	-2.9	7.9	6.3	6.8	5.0
Inventory change (\$M 2002)	2,676	1,516	2,013	1,159	1,600
Public expenditures	0.8	2.4	3.7	4.2	2.9
Exports	2.8	1.7	-2.0	-3.4	-0.4
Imports	3.8	2.7	2.2	2.0	3.2
Final domestic demand	1.5	3.1	4.5	3.7	3.0
Ontario					
Real gross domestic product	2.7	2.5	2.2	-0.1	0.9
Personal consumption expenditures	3.4	3.4	3.6	3.8	2.8
Residential construction	1.4	0.8	1.6	-2.2	-0.7
Business fixed investment	9.7	12.6	6.4	-2.2	0.8
Inventory change (\$M 2002)	3,271	4,875	3,843	2,986	8,213
Public expenditures	2.5	3.8	2.5	3.8	4.6
Exports	2.1	-0.3	1.1	-6.4	-2.1
Imports	3.6	2.4	2.8	-2.2	2.4
Final domestic demand	3.6	4.2	3.5	2.7	2.7

f: forecasts

Sources: Statistics Canada and Desjardins, Economic Studies

Table 12
The regions: GDP growth in current dollars

	2005	2006	2007r	2008f	2009f
Annual average in %					
Bas-Saint-Laurent	1.5	3.2	5.4	2.6	2.8
Saguenay-Lac-Saint-Jean	4.3	6.5	5.0	3.3	3.0
Capitale-Nationale	4.6	4.3	5.6	5.5	3.0
Mauricie	2.3	7.9	5.2	3.0	3.2
Estrie	2.5	0.6	5.1	2.1	3.6
Montréal	3.1	2.5	5.5	3.3	3.6
Outaouais	4.0	2.9	5.3	3.5	3.4
Abitibi-Témiscamingue	6.0	1.7	7.7	7.0	7.3
Côte-Nord	-0.7	7.6	7.2	7.5	8.0
Nord-du-Québec	5.7	15.8	10.4	8.1	7.8
Gaspésie-Îles-de-la-Madeleine	1.8	-2.3	6.0	3.4	4.2
Chaudière-Appalaches	4.1	3.3	5.3	2.6	2.9
Laval	4.7	9.3	6.3	2.9	3.8
Lanaudière	5.8	7.5	6.4	3.2	4.0
Laurentides	4.6	4.1	6.5	3.8	3.3
Montérégie	4.1	6.8	6.1	3.7	4.2
Centre-du-Québec	4.0	2.6	5.8	2.8	3.1
Total Québec	3.7	4.2	5.8	3.5	3.7

r: revised f: forecasts

Sources: Institut de la statistique du Québec and Desjardins, Economic Studies

Table 13
Canada: Major financial indicators

End of period in %	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
Key rates												
Overnight funds	4.25	4.25	4.50	4.25	3.50	3.00	3.00	1.75	1.75	1.75	1.75	2.25
Prime rate	6.00	6.00	6.25	6.00	5.25	4.75	4.75	3.50	3.50	3.50	3.50	4.00
Mortgage rates												
1-year	6.40	6.80	6.95	7.25	7.00	6.30	6.25	6.15	5.90	5.85	5.85	6.05
5-year	6.50	7.25	7.15	7.55	7.15	7.10	7.20	7.10	6.95	6.75	6.75	6.85
Treasury bills												
3-month	4.18	4.43	3.98	3.83	1.88	2.50	1.90	2.45	3.40	2.50	2.60	2.75
Federal bonds												
5-year	4.01	4.56	4.21	3.87	2.91	3.46	3.17	2.80	2.75	2.70	2.90	3.20
10-year	4.11	4.55	4.34	3.99	3.43	3.74	3.76	3.35	3.30	3.05	3.40	3.90
Canadian dollar												
American dollar (CAD/USD)	0.8669	0.9389	1.0056	1.0021	0.9748	0.9797	0.9407	0.8800	0.9000	0.9400	0.9700	1.0000
Canada												
S&P/TSX index	Result: 13,833 (+7.2%)				Target: 13,000 (-6.0%) (range: from 11,620 to 14,100)				Target: 13,900 (+6.9%) (range: from 13,250 to 14,550)			

f: forecasts

Sources: Datastream and Desjardins, Economic Studies

Table 14
Canada: Major economic indicators by provinces

	2005	2006	2007	2008f	2009f
Annual average in % (except if indicated)					
Real GDP growth*	2.9	3.1	2.7	0.6	1.3
Atlantic	1.0	2.2	3.5	0.5	1.2
Québec	1.8	2.0	2.4	0.5	1.3
Ontario	2.7	2.5	2.2	-0.1	0.9
Manitoba	2.7	3.2	3.3	1.5	1.9
Saskatchewan	3.5	-0.4	2.8	2.5	2.1
Alberta	5.3	6.6	3.3	2.0	2.4
British Columbia	4.5	3.3	3.1	1.5	1.7
Inflation rate*	2.2	2.0	2.2	2.6	1.8
Atlantic	2.6	1.9	1.8	3.0	1.5
Québec	2.3	1.7	1.6	2.3	1.7
Ontario	2.2	1.8	1.8	2.2	1.5
Manitoba	2.7	2.0	2.0	2.3	1.8
Saskatchewan	2.2	2.1	2.8	3.4	2.0
Alberta	2.1	3.9	5.0	3.6	2.2
British Columbia	2.0	1.7	1.8	2.4	2.0
Employment growth*	1.4	1.9	2.3	1.5	0.7
Atlantic	0.2	0.5	1.4	1.0	0.3
Québec	1.0	1.3	2.3	0.6	0.9
Ontario	1.3	1.5	1.6	1.4	0.5
Manitoba	0.6	1.2	1.6	1.6	1.0
Saskatchewan	0.8	1.7	2.1	1.5	1.0
Alberta	1.5	4.8	4.7	2.4	1.5
British Columbia	3.3	3.1	3.2	2.4	1.0
Unemployment rate*	6.8	6.3	6.0	6.1	6.4
Atlantic	10.3	9.8	9.1	9.3	9.3
Québec	8.3	8.0	7.2	7.5	7.5
Ontario	6.6	6.3	6.4	6.4	6.9
Manitoba	4.8	4.3	4.4	4.0	4.4
Saskatchewan	5.1	4.7	4.2	4.3	4.5
Alberta	3.9	3.4	3.5	3.5	3.5
British Columbia	5.9	4.8	4.2	4.3	4.5
Retail sales growth*	5.6	6.4	5.8	4.6	4.1
Atlantic	2.8	5.4	6.0	5.4	3.7
Québec	5.1	5.1	4.6	5.2	4.0
Ontario	4.8	4.1	3.9	4.8	3.6
Manitoba	5.9	3.9	8.8	8.6	4.5
Saskatchewan	5.2	6.5	13.0	12.5	6.0
Alberta	11.8	15.4	9.3	1.8	5.0
British Columbia	4.4	7.2	6.7	3.0	4.5
Housing starts* (thousands of units)	225.5	227.4	228.3	215.4	195.0
Atlantic	12.1	12.0	12.4	11.3	9.8
Québec	50.9	47.9	48.6	46.0	43.0
Ontario	78.8	73.4	68.1	72.5	59.4
Manitoba	4.7	5.0	5.7	5.1	4.5
Saskatchewan	3.4	3.7	6.0	6.5	3.8
Alberta	40.8	49.0	48.3	37.0	40.5
British Columbia	34.7	36.4	39.2	37.0	34.0

f: forecasts

* Data for Canada.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation and Desjardins, Economic Studies



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