



Sectoral Profile

Wholesale and Retail Trade

Atlantic Region

2018



KEY HIGHLIGHTS

- As a whole, the trade industries (wholesale and retail) in Atlantic Canada expanded broadly over the past decade, with the main exception being the wholesaling and distribution of petroleum products, which contracted significantly in New Brunswick due to low petroleum prices.
- Employment growth has been limited over this period by productivity gains, particularly in the retail trade industry, where new technologies like online shopping, self-checkouts and various other innovations have limited labour demand.
- This technology-driven shift to less labour-intensive operations is expected to persist, going forward, which supports our view that employment growth in Atlantic Canada's trade industries will be negative over the 2018-2020 forecast period. Outcomes will vary at the provincial level, with declines in Newfoundland and Labrador (-1.8%) and Nova Scotia (-0.5%) expected to offset gains in Prince Edward Island (+1.8%) and New Brunswick (+0.2%).
- The volume of sales conducted through e-commerce platforms is growing at a rapid pace and developments in mobile ordering, online grocery shopping and other technologies suggest that businesses will need to find an ideal balance between brick-and-mortar and online operations.
- Retail trade remains an important source of youth employment. As such, this industry's workforce is comprised of a disproportionately high share of part-time and minimum wage earners.

SECTOR PROFILE

Trade is comprised of two industries: wholesale trade and retail trade. Both are involved in the selling of merchandise, generally without transformation, and delivering services that accompany the sale of merchandise. Wholesale trade (NAICS 41) operators typically sell merchandise in large quantities to businesses and institutional clients, while those in retail trade (NAICS 44-45) sell merchandise in much smaller quantities to the general public.¹ These two industries are vertically integrated in the sense that wholesalers will often serve as intermediaries between production and the final sale of goods by retailers. However, wholesalers may also be involved in providing services such as brokering transactions, marketing, labelling, shipping, and inventory management. This industry is linked to a variety of other industries, including manufacturing and transportation and warehousing.

Trade is one of Atlantic Canada's most important industry groups, accounting for nearly a tenth of the region's economic activity. In 2017, these industries contributed \$9.4B in real Gross Domestic Product (GDP) to the regional economy, two-thirds of which was generated by retailers and the remainder by wholesalers.²

Atlantic Canada benefits more from retail trade, on average, than the rest of the country, with over 6% of its GDP generated from activity in this industry. The majority of retail businesses in the region employ fewer than 20 employees.³ Overall, there were over 11 thousand retailers operating in the region, generating over \$6B in real GDP and \$40B in sales.⁴

Retail trade can be broken-down into various product categories, the most significant being motor vehicle and parts dealers, which accounted for nearly 30% (\$10.8B) of all sales in 2018. Health and personal care stores and gasoline stations were also important, generating a combined \$8.8B in sales.

Wholesale trade contributed \$3B in real GDP to the Atlantic Canadian economy in 2017, two-thirds of which was concentrated in three areas: machinery, equipment and supplies; building material and supplies; and food, beverage and tobacco wholesaler-distributors. There are significantly fewer wholesalers (3,300) than retailers in operation, generating roughly half (\$22B) the volume of sales.⁵

The trade group's workforce is large relative to its overall economic contribution. In 2018, there were over 180 thousand people in Atlantic Canada employed in this industry group, representing 16% of the region's jobs. The vast majority (84%) of the group's workforce was employed in retail trade.⁶

Table One Employed Labour Force - Wholesale and Retail Trade Atlantic Canada and Canada		
	Atlantic	Canada
Wholesale trade	100%	100%
Farm product merchant wholesalers	0.5%	1.8%
Petroleum and petroleum products merchant wholesalers	6.4%	2.4%
Food, beverage and tobacco merchant wholesalers	21.9%	16.3%
Personal and household goods merchant wholesalers	7.4%	13.8%
Motor vehicle and motor vehicle parts and accessories merchant wholesalers	7.8%	6.8%
Building material and supplies merchant wholesalers	14.3%	16.0%
Machinery, equipment and supplies merchant wholesalers	27.6%	27.4%
Miscellaneous merchant wholesalers	10.7%	11.8%
Business-to-business electronic markets, and agents and brokers	3.4%	3.7%
Retail trade	100.0%	100.0%
Motor vehicle and parts dealers	13.0%	11.8%
Furniture and home furnishings stores	2.6%	3.7%
Electronics and appliance stores	2.1%	3.4%
Building material and garden equipment and supplies dealers	8.5%	7.4%
Food and beverage stores	26.1%	24.7%
Health and personal care stores	10.9%	10.3%
Gasoline stations	4.9%	3.0%
Clothing and clothing accessories stores	7.5%	11.1%
Sporting goods, hobby, book and music stores	3.3%	4.4%
General merchandise stores	13.0%	11.7%
Miscellaneous store retailers	5.6%	5.8%
Non-store retailers	2.5%	2.8%

Source: Statistics Canada, 2016 Census of Canada, Table 98-400-X2016290

While the trade group pays below-average incomes, the sheer volume of low-wage retail sales earners skews these results. Broken-down by industry, those employed in wholesale trade earn above-average incomes, while retail employees earn roughly half of this amount.⁷ These low incomes can be explained by lower education requirements that tend to draw a younger, less permanent workforce. Retail trade is an important source of youth employment, with a quarter of its workforce falling between the ages of 15 and 24 years (compared to 13% across all industries). The fact that nearly a third of the retail sales workforce is part-time reflects this demographic profile, as a large number of those falling within the 15 to 24 years age group would be in school.

Because of these dynamics, a higher-than-average share of these workers earn the minimum wage, which ranged from \$11.05 in Nova Scotia¹ to \$12.25 in Prince Edward Island. According to APEC, about 39% of Atlantic minimum wage earners work in retail.⁸

The unemployment rate across Atlantic Canada's trade industries is generally lower than for the economy as a whole. Meanwhile, though males and females are equally represented throughout the group, males are three times more likely than females to work in wholesale trade. This is offset by higher female representation in retail trade, which is much larger in terms of its workforce.

RECENT HISTORY

Atlantic Canada's trade industries grew by 13% in real GDP terms, over the past decade, as growth in retail trade offset a small decline in wholesale trade. Overall, the group's employment base remained flat over this period, but performance across its two industries again diverged, with employment growth concentrated in retail trade.

While wholesale trade GDP contracted somewhat (-1%) over the past decade, this was almost entirely a result of weaker sales among Petroleum product wholesaler-distributors, brought on by low petroleum prices. Moreover, this decline was completely confined to New Brunswick. Excluding this product group, wholesale trade actually expanded by 10% thanks to robust sales growth, surpassing the all-industry average (+4%). The number of those employed within Atlantic Canada's wholesale trade industry has tended, in recent years, to fluctuate around 30,000 and while there are 2,100 (-7%) fewer people working in wholesale trade in 2018 than there were in 2008, this change does not appear to be part of a trend indicative of a major industry shift.

Real GDP in retail trade has grown by 20% over the past decade, supported mainly by large sales increases across motor vehicle and parts dealers, health and personal care stores and gasoline stations, as sales increased by nearly \$6.5B within these three groups alone. However, consistent with the trend that is seen at the national level, employment growth has been much more subdued over this period (+1%), as a result of major structural changes that are taking place.

Increasing adoption of new technologies appears to be at least partly accountable for the divergence between GDP and employment. Self-check-outs and other innovations are increasingly common, especially among large operators, while the industry is also adapting to shifting consumer preferences by steadily increasing its online presence. While retail e-commerce made up only 3% of Canadian retail trade sales in 2018, this segment's sales volume appears to be expanding at a considerable pace, with growth of 46% from 2016² to 2018, alone.⁹ Moreover, more people have been purchasing through mobile phones and tablets and retailers have been responding by investing more heavily in mobile technologies¹⁰, making it even easier for consumers to purchase online.

Other innovations that have emerged in recent years include predictive analytics that aid consumers with purchasing decisions and artificial intelligence applications such as chatbots, advanced recommendation engines, and price and incentive personalization platforms that help organizations provide more responsive service.¹¹ These advancements have not only led to improvements in efficiency but have increased the range of products and services being offered.

The closure of two major chain stores with significant operations within the Atlantic region is a reflection of the changing landscape of the retail trade industry and these events dampened employment growth over the past decade. First, in 2015, after only a few years of operation in Canadian markets, Target closed over 130 stores across the nation¹², including eight in the Atlantic region. All together, over 1,100 jobs were lost. More recently, in 2017, Sears Canada went out of business, resulting in the closure of all of all of its stores. Eleven of those were

¹ This is the rate of pay for inexperienced workers. Employers in Nova Scotia must pay experienced employees at least \$11.55 per hour.

² Earliest year on record for this data series.

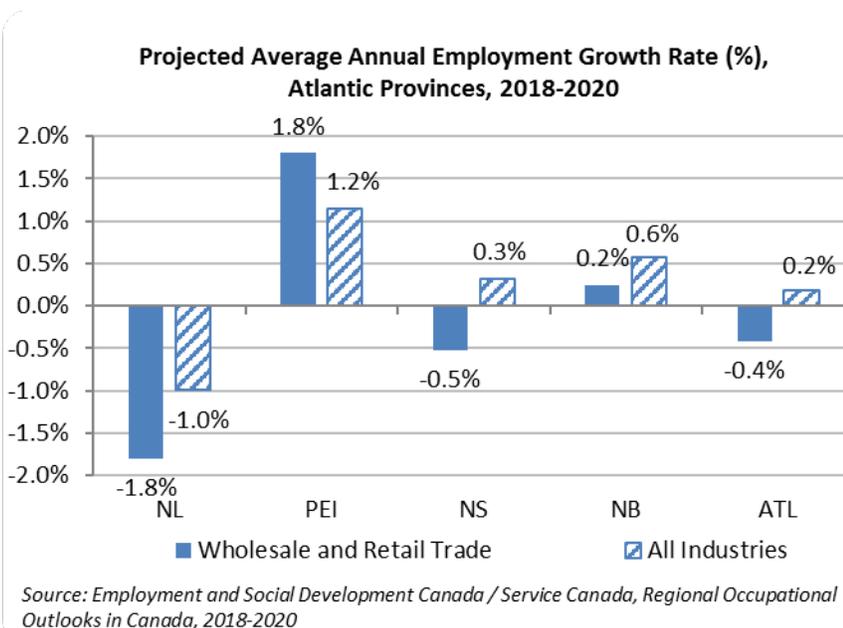
based in Atlantic Canada, resulting in over 900 jobs lost throughout the region. While these layoffs amount to just over 1% of the average retail employment base over the past decade, it helped put downward pressure on an industry that was already becoming less labour-intensive.

Another important development that has played out in Atlantic Canada's retail trade industry has been the evolution of "Supercenters", large chain stores that blur the lines of traditional product offerings by including fresh groceries along with apparel, housewares, furniture and electronics, thus cross-cutting several subindustries. Competition from large retail chains such as Walmart and Real Canadian Superstore has forced smaller retailers to either cut prices or find their competitive niche.

Earnings growth in the trade industries has been on par with the all-industry average, over the past decade, ranging from 27% in New Brunswick to 37% in Newfoundland and Labrador. With an estimated 20% of the retail trade workforce earning the minimum wage¹³, it is worth mentioning that this rate has generally kept pace with inflation over the past decade, even though growth has been uneven.

EXPECTED OUTLOOK

Atlantic Canada's trade group is expected to experience negative employment growth (-0.4%) over the 2018-2020 forecast period as productivity gains and a continued transition from brick-and-mortar retail operations to e-commerce will offset any gains in industry output. Outcomes are varied at the provincial level, with declines in Newfoundland and Labrador (-1.8%) and Nova Scotia (-0.5%) expected to offset gains in Prince Edward Island (+1.8%) and New Brunswick (+0.2%).



Wholesale trade output typically tracks closely with overall economic activity and is therefore expected to continue to grow modestly between 2018 and 2020. However, employment growth over this period will be limited by the continued adoption of technological advancements that are making businesses more productive. According to the Conference Board of Canada (CBoC)¹⁴, wholesalers are increasingly selling through both online and offline channels, making it easier for them to receive orders and connect with customers. Advancements in inventory management systems based on new technologies like data analytics, sensors and more efficient tracking are also reducing the demand for labour.

Technology-driven changes occurring in retail trade are expected to be even more transformative. Grocery and other retail chains are expected to become increasingly reliant on self-check-out stations. At the same time, the

proportion of retailers with an online presence is expected to continue to increase as a growing number of consumers gravitate towards this sort of platform as their preferred shopping experience. Online grocery shopping is a fairly new concept in Atlantic Canada, but is one that is expected to heat up as national grocery chains seek to meet pent-up demand. In 2018, Nova Scotia-based Sobeys Inc. announced that it is partnering with British online grocer Ocado to open a grocery store by late 2020, allowing Sobeys customers to shop for groceries online or via telephone application, with at-home delivery.¹⁵ The automation of supporting infrastructure, particularly in the area of logistics, will further dampen labour requirements over the forecast horizon.

The future ratification of the Canada-United States-Mexico Agreement (CUSMA), which was signed in November of 2018, may also have an impact on the trade industries – on retail trade in particular. Under the new agreement, the threshold for duty-free shopping (i.e. de minimis) between Canada and the U.S. would rise from \$20 to \$150, meaning that consumers will not have to pay duties on cross-border purchases under this new amount. The threshold at which sales taxes will be levied was also raised, from \$20 to \$40. Some retail stakeholders have expressed concern that this creates an uneven playing field for Canadian retailers who will continue to pay duties on their goods and charge Canadian consumers taxes on their purchases.¹⁶ Moreover, this may also lead to an increase in the volume of Canadian purchases from the U.S. as cross-border shopping is three-times more common in Canada than in the U.S.¹⁷ At a rate of \$20, there may not have been major incentives to online cross-border shopping, as most purchases face shipping and handling costs that could exceed the tax and duty savings. However, at the new duty and sales tax rates, the benefits may exceed the costs.

SUB-REGIONAL DYNAMICS

Newfoundland and Labrador

- Trade in Newfoundland and Labrador (N.L.) has been more resilient than the rest of the economy, with real GDP for the group of industries expanding by 27% between 2007 and 2017, even as the province's overall real GDP declined by 3% over the same period.
- Nearly one-third of the GDP value of wholesale trade in N.L. is generated by machinery, equipment and supplies wholesaler-distributors, which reflects the relative economic importance of the province's mining, quarrying, and oil and gas extraction industry.
- N.L. was the only Atlantic province to adopt a private retail model for recreational cannabis and a number of vendors have already entered the market, including Tweed, which aims to employ around 60 people between its four retail facilities.

Prince Edward Island

- The composition of wholesale trade in Prince Edward Island (P.E.I.) reflects its large agricultural base, with food, beverage and tobacco wholesaler-distributors accounting for a third of the industry's GDP – much more than in any other province.
- In 2017, Sears Canada shuttered its department store Charlottetown, resulting in 85 people left without employment. Sears was one of the largest employers in the city, making this closure more impactful than those associated with larger cities in the Atlantic region.
- Four cannabis retail outlets, as well as an e-commerce platform (all overseen by the Prince Edward Island Cannabis Management Corporation) came online in 2018, creating approximately 50 jobs.

Nova Scotia

- Nova Scotia's (N.S.) trade industries account for over 10% of the province's real GDP – more than for any other of the Atlantic provinces. Nearly 80 thousand people are employed by the province's wholesale and retail trade operations.

- N.S. saw three Sears department stores (Halifax, Dartmouth and Truro) and one outlet store (Halifax) close in 2017, resulting in over 300 job losses.
- Cannabis in N.S. is now being sold alongside alcohol, through existing Nova Scotia Liquor Commission (NSLC) stores (as well as online), resulting in additional staff being hired.

New Brunswick

- New Brunswick (N.B.) was the only Atlantic province in which wholesale trade (real) GDP declined over the past decade, though this was almost entirely due to a drop in petroleum product wholesaler-distributor output resulting from low petroleum prices.
- Sears Canada closed its four N.B. department stores (Saint John, Bathurst, Fredericton and Dieppe) in 2017, resulting in nearly 300 job losses.
- The new recreational market for cannabis resulted in 20 new Cannabis NB (Crown Corporation) retail outlets, throughout the province. While it was originally projected that over 300 employees would be needed, 60 people were laid-off twelve weeks into operations.¹⁸

APPENDIX

Table Two
Real GDP (2017) and Employment (2018) for Atlantic Canada

	Wholesale and Retail Trade			All Industries		
	Number	Share of Total	AAGR*	Number	Share of Total	AAGR*
Real GDP (M\$)	\$9,407.1	100.0%	1.2%	\$103,262.4	100.0%	0.4%
Newfoundland and Labrador	\$2,200.2	23.4%	2.4%	\$31,585.2	30.6%	-0.3%
Prince Edward Island	\$507.7	5.4%	1.8%	\$5,540.0	5.4%	1.5%
Nova Scotia	\$3,677.8	39.1%	1.3%	\$35,955.4	34.8%	0.8%
New Brunswick	\$3,021.4	32.1%	0.1%	\$30,181.8	29.2%	0.4%
Employment (000s)	180.9	100.0%	0.0%	1111.0	100.0%	0.1%
Male	92.7	51.2%	0.5%	562.8	50.7%	0.1%
Female	88.2	48.8%	-0.5%	548.2	49.3%	0.1%
15-24 years old	41.8	23.1%	-1.1%	143.3	12.9%	-1.4%
25-54 years old	96.8	53.5%	-1.3%	709.4	63.9%	-0.7%
55 years and older	42.3	23.4%	5.7%	258.3	23.2%	3.7%
Worked full-time	134.7	74.5%	0.1%	930.8	83.8%	0.1%
Worked part-time	46.2	25.5%	-0.4%	180.2	16.2%	-0.2%
Self-employed	14.9	8.2%	-0.8%	131.1	11.8%	-0.2%
Employees	166.0	91.8%	0.1%	979.9	88.2%	0.1%
Permanent job	145.9	80.7%	0.1%	804.9	72.4%	0.3%
Temporary job	20.1	11.1%	-0.1%	175.0	15.8%	-0.5%
Less than high school	24.0	13.3%	-3.8%	106.6	9.6%	-4.4%
High school graduate	72.8	40.2%	0.0%	278.9	25.1%	-1.0%
Postsecondary cert. or diploma	59.0	32.6%	0.8%	435.8	39.2%	0.6%
University degree	25.1	13.9%	3.4%	289.6	26.1%	2.9%
Newfoundland and Labrador	37.4	20.7%	0.5%	225.3	20.3%	0.2%
Prince Edward Island	11.1	6.1%	0.8%	76.0	6.8%	1.0%
Nova Scotia	79.0	43.7%	0.2%	455.9	41.0%	0.1%
New Brunswick	53.4	29.5%	-0.8%	353.8	31.8%	-0.2%

Source: Statistics Canada, Labour Force Survey - Custom Table; Table 36-10-0402-01

*Average annual growth rate for last ten years of available data (GDP 2008-17 and Employment 2009-18)

Note: In preparing this document, the authors have taken care to provide clients with labour market information that is timely and accurate at the time of publication. Since labour market conditions are dynamic, some of the information presented here may have changed since this document was published. Users are encouraged to also refer to other sources for additional information on the local economy and labour market. Information contained in this document does not necessarily reflect official policies of Employment and Social Development Canada.

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¹ Statistics Canada. North American Industry Classification System (NAICS) Canada 2012.

<http://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=118464>.

² Statistics Canada. Table 36-10-0402-0.

³ Statistics Canada. Table 33-10-0105-01.

⁴ Statistics Canada. Table 20-10-0008-01.

⁵ Statistics Canada. Table 20-10-0074-01.

⁶ Statistics Canada. Table 14-10-0023-01.

⁷ Statistics Canada. Table 14-10-0204-01.

⁸ Atlantic Provinces Economic Council. Report Card. Minimum Wage in Atlantic Canada. January 2018.

⁹ Statistics Canada. Table 20-10-0072-01.

¹⁰ Retail Council of Canada. Industry Insights. Driving eCommerce Growth in Canada: Key Metrics, Insights & Recommendations. June 22, 2018.

¹¹ Retail Council of Canada. Canadian Retailer. The Technology & E-Commerce Issue. 2018.

¹² CBC. Target Canada closing 80 stores by Easter weekend. <https://www.cbc.ca/news/business/target-canada-closing-80-stores-by-easter-weekend-1.3008872>.

¹³ Atlantic Provinces Economic Council. Report Card. Minimum Wage in Atlantic Canada. January 2018.

¹⁴ Conference Board of Canada. Canadian Industrial Profile. Wholesale Trade. Autumn 2018.

¹⁵ CBC. Sobeys inks deal with Ocado to launch online grocery store by 2020. <https://www.cbc.ca/news/business/sobeys-online-grocery-1.4497931>.

¹⁶ Retail Council of Canada. Driving eCommerce growth in Canada: Key Metrics, Insights & Recommendations. 2018.

¹⁷ Retail Council of Canada. De Minimis: Ensure a level playing field for retailers in Canada.

<https://www.retailcouncil.org/advocacy/de-minimis/de-minimis-ensure-a-level-playing-field-for-retailers-in-canada/>.

¹⁸ CBC. Major round of layoffs at Cannabis NB after 12 weeks in business. <https://www.cbc.ca/news/canada/new-brunswick/marijuana-pot-cannabis-nb-new-brunswick-jobs-1.4972259>.