RETAIL SECTOR IN ONTARIO

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This report is based on data and reports provided by the Statistics Canada – a government agency that collects census information, data and statistics in Canada. At the turn of the century, Ontario experienced overall decline in retail sales. All major factors that could somehow lift sales (i.e. employment and population growth) were down. This decline was accompanied by a slow process of demerchandization or a movement away from big general merchant stores. Only a couple of retail sub-groups within the general merchant stores maintained their grounds – the rest lost their market share. Food and beverage sector was among the most successful.

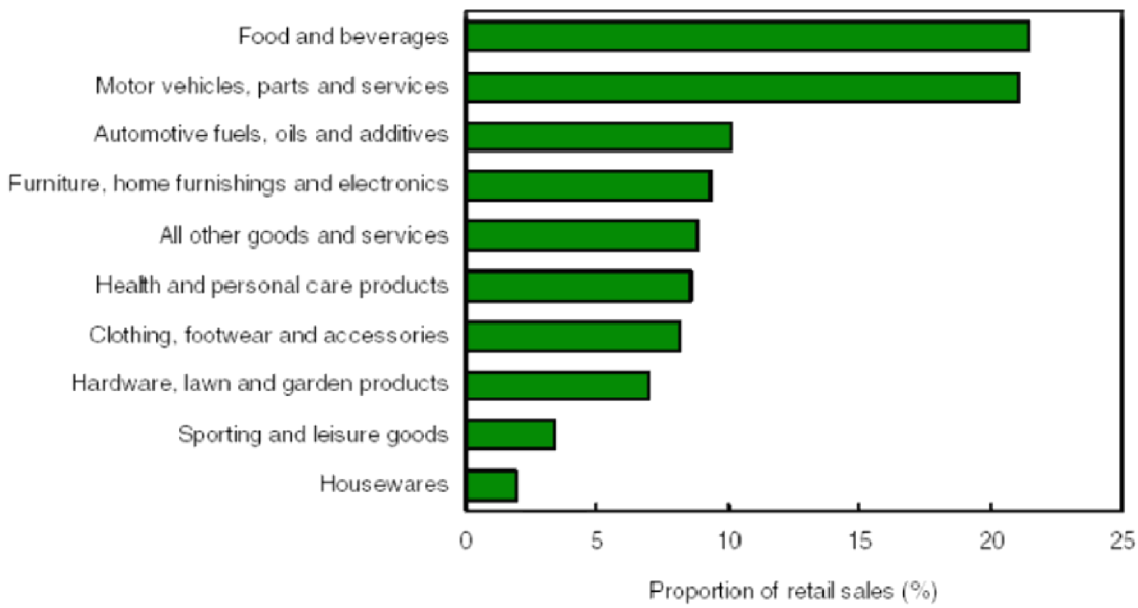
General Conditions for Success in Retail Sector

Ontario as a region represents an important cluster of industries that traditionally have been dominant in Canada. The largest retail sector in Canada can be found in Ontario and Quebec (Wallace 194). «Retail sector represents a sizeable proportion of consumer spending, which experienced its largest gain since 1985 and was a driving force in the Canadian economy in 2007» (Mohammed 5). Retail sector usually benefits and posts strong revenues when economy experiences strong employment, high incomes, low inflation and low interest rates (Mohammed 5).

Structures in Retail Sector

Retail sector is highly structural and predictable. The main commodity group within the retail sector is automotive group, also known as the big-ticket group. Auto-motive sector is 1/3 of total retail sales in Ontario (Assoumou 15). It alone in many cases can offset losses in other sub-sectors. Since 2000, however, auto motive sector in Ontario posted weak growth (1 %). From 2000 to 2004, for example, a drop of 9 new cars from 57 to 48 for every 1000 residents occurred in the province of Ontario (Zhang 18). The same trend continued in 2007. According to the New Motor Vehicle Survey number of units sold fell 1.4 % in 2007, which was provoked by increasing gas prices (Assoumou 15).

In reality, Auto group is somewhat of a misnomer because in addition to this group, there is another group that strongly relates to the auto group. That group is automotive fuels, oils and additives. On average $ 10 for every $1 00 is spent on this second auto group (Mohammed 5). Another influential commodity group is food and beverages. In 2007, it was the largest group. If on motor vehicles was spent $ 21 of disposable income, on the food and beverages group was spent $ 22. The third largest group is furniture, home furnishing and electronics (Mohammed 5). Other groups are: all other goods and services; health and personal care products; clothing, footwear and accessories; hardware, lawn and garden products; sporting and leisure goods; house wares (Mohammed 5).



Source: Statistic Canada, CANSIM table 080-0018

Figure 1. Spending in Retail Stores According to Each Sub-group

Demerchandization of Retail Sector

A structural aspect of the retail sector is that it is divided between general merchandize stores and «boutique» or more specialized stores. According to Statistics Canada data, one inference can be concluded, in particular that there is a trend towards «demerchandization» or movement away from general merchant stores to specialized stores. In fact, general merchant stores lost market share in six out of ten commodity groups (Mohammed 7). The trend towards demerchandization started in 1999 when they started to lose market shares (Mohammed 7). One possible explanation is provided by microeconomic theory, which claims that large stores have over-reached their optimal size, and thus are no longer efficient. However, food and beverages group grew, mainly as a result of bundling their fast food chains with the mid-size general merchant stores. ««Shoppers» [a mid-size store] spent $ 9 million on food and beverages in general merchandise stores in 2007, up 11 % form 2006. This is by far the highest increase among commodity groupings for this type of store and more than twice the overall retail sales increase of 5.2 % for these products» (Mohommed 13). General merchandisers in Ontario experienced their worst growth rate in 14 years, as sales for them grew by only 1.6% (Assoumou 16).

Table 1

General Merchandisers' sales by commodity groups

Commodity group	Sales		Market share		
	2007	Yearly change	2006	2007	Yearly change
	$ thousands	%	%		
Food and beverages	8,970,519	11.0	9.6	10.1	+
Health and personal care products	5,586,235	6.4	15.9	15.6	–
Furniture, home furnishing and electronics	7,089,164	5.7	18.7	18.4	–
Motor vehicles, parts and services	2,208,762	4.3	2.5	2.5	=
Automotive fuels, oils and additives	718,955	14.5	1.7	1.7	=
Sporting and leisure goods	4,538,845	4.9	32.5	32.3	–
Housewares	3,549,965	4.2	43.7	45.2	+
Hardware, lawn and garden products	4,104,651	2.8	14.7	14.3	–
Clothing, footwear and accessories	8,100,818	0.2	24.9	23.9	–
All other goods and services	4,831,439	-2.9	14.3	13.3	–
Total	49,699,354	4.5	12.2	12.0	–

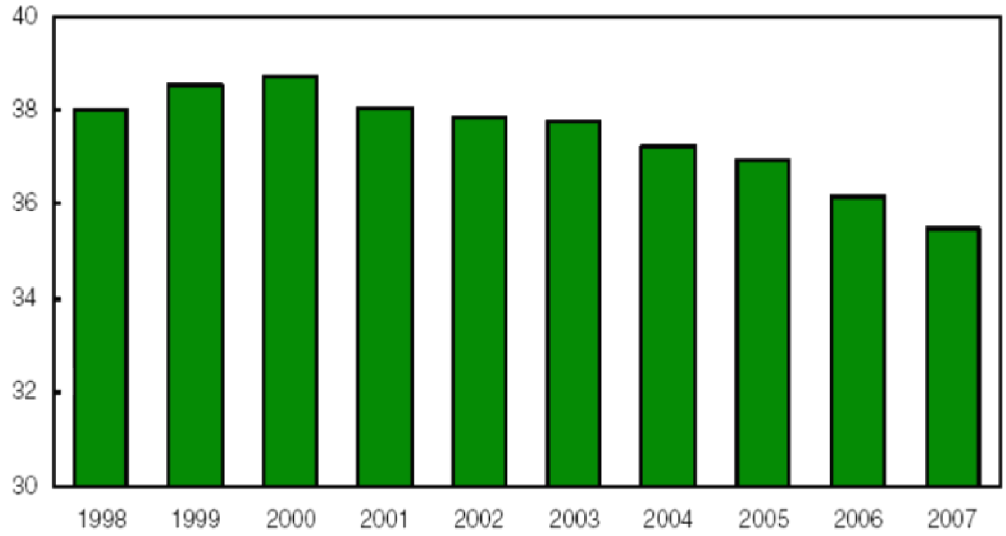
Source: Statistics Canada, special tabulation, Distributive Trades Division.

Employment Structure in Retail Sector

Retail sector is robust and is a source of employment to about 12.3 % or more of the Ontario residents (Wallace 195). In terms of employment structure, it is only second to manufacturing sector (Wallace 195). In 2007, the retail sector reached parity with the manufacturing sector in terms of employment (Assoumou 3). On the national level, almost 1,790,000 people were employed in the retail sector and 1,784,700 people were employed in the manufacturing sector (Assoumou 7). However, disparities in terms of wages remained. For example, in 2007 retail sector paid its employees on average an hourly wage of $ 14.87, whereas the manufacturing sector paid $ 21.66. Over the past ten years, retail wages grew from $ 13.70, which is about 10 % (Assoumou 7).

Growth in Retail Sector

In 2007, retail sales in Ontario were $ 146,252,302, which represents an increase of 3.9 % from the last year. In comparison to other provinces, this figure is second to none. In fact, the second largest retail sales – $ 90,663,289 – were recorded in Quebec (Assoumou 8). Although in absolute terms, Ontario retail sales revenue constitutes a significant amount; it no longer grows at the rate it used to grow nor maintains the same share of the national GDP. As was mentioned above, Ontario retail sales grew 3.9 %, which is even lower than Nunavut's growth of 5.8 % in retail sales (Assoumou 8). Thus, «Ontario's share of the national total sales declined to 35.5 %, compared with 38.7 % in 2000» (Assoumou 15).



Source: Statistic Canada, CANSIM table 080-0015

Figure 2. Ontario's Share of Canadian Retail Sales in Percentages

Decline can be explained by numerous factors. First reason is employment. Employment grew in Ontario by only 1.6 % in 2007, which is below the national average of 2.3 % (Assoumou 15). At the same time, manufacturing sector laid off additional 5.6 % employees. Weak employment was an outcome of strong dollar, high energy prices, weak demand in the US for Canada's high-tech and transportation products, and strong competition from Asian countries, leading many retailers and manufacturers to shut down or reduce their operations (Mohammed 8 and Zhang 18). Yet another factor influencing low employment is weak population growth, which only grew by 0.9 % (Assoumou 15), which might be indicative of deteriorating quality of life in the province of Ontario.

Disposable Income and Retail Sector

Weak employment, in turn, leads to decrease of disposable income that translates into sluggish sales. According to Statistics Canada, in 2007 for every $100, Canadians spent $18.70 in new car dealerships; $ 16.00 in supermarkets; $11.80 in general merchandise stores; $ 11.30 in gasoline stations and $ 6.90 in pharmacies and personal care stores (Assoumou 3). In Ontario, all evidence shows that these figures were lower than national averages and the *race to the bottom* continued into 2008. Thus, during the first half of 2008, Ontario continued to post declines (1.6 %) in retail sales (The Daily). In December 2008 sales fell 6 % (Chung 2). Multiplier effect, of course, begins the domino effect influencing many other small producers and retailers.

In addition to easily available cash, weather also has an impact on retail figures. Ice storm was another reasons why sales were so low in December 2008. Weather is a *systemic button* that always turns *on* or *off* shopping.

Conclusion

In conclusion, Ontario experienced overall decline in retail sales. All major factors that could somehow lift sales (i.e. employment and population growth) were down. This decline was accompanied by a slow process of demerchandization. Only a couple groups within the general merchant stores maintained their grounds – the rest lost their market share. Food and beverage sector was among the most successful.

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