

Clicks vs. Bricks: The rise of digitization

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...of what we buy online, green line, and what we buy from brick and mortar stores.

I like to call this clicks vs. bricks. Because it's like, fun and poetic, right? This chart is interesting to me because it tells the story of a dramatic shift in our economy. Back in the 1990s, this is U.S. data, we bought about 4% of what we buy online. Today, by the way, we measure it, it's about 12% of what we buy online. In my house, it's much bigger than that.

You'll notice I use U.S. data here because Canada really struggles to actually capture what we're buying online. In Canada, Statistics Canada can only capture what a Canadian buys from a Canadian store. If you buy from a Canadian store, it goes into our statistics; if you buy it from a U.S. store, it does not. Governor Poloz recently said that he believed... Maybe it's a cop-out, he believed that one of the reasons that retail sales have been really low in Canada over the past four years is that our share of what we buy online is growing very rapidly. But we're not calculating it in the economy.

Certainly, in my house, this number is much closer to 30, 40, 50%, depending on if I bought diapers that month. Why is this so significant? It's significant because of the pace change. In the past three years, two thirds of the growth that we've seen in retail sales in the U.S. have come from online sales, and one third has come from a single company. This is the class participation part. Amazon, that's right. Amazon.

Now, this pace of change has been so dramatic that if we look at the average economy, remember, I told you we're going to grow at 2% for an extended period of time. The GDP of the average economy in the United States, or average grow in the U.S. is about 2%. For the digital economy, 7 to 8%. Four times as fast in the digital economy than in the regular economy. So fast that if we look on the left hand chart and we decompose growth between 2013 and 2017, that's the most recent data I can get with this decomposition, you will see that the digital economy is contributing about a third to growth. That's dramatic.

There's a lot of research on the implications of this. You can go online and you'll find a lot of peer-reviewed academic work that will tell you that if you buy something on Amazon, on average, it's about 5% cheaper than what you can get elsewhere. That's

the average discount that you get from Amazon. How many of you, however, go to a store, and you're about to pick something off the shelf, and you take it off and you say, "Oh, maybe I'll just check and see if I can't get it for cheaper online." Do you do this? I do this all the time. Do you ever put the item back because you can get it cheaper? I do.

Do you ever think about the fact... This happened the other day. I had to buy a new winter shovel, because it snowed once, and I could get it, I forget what it was, \$86 on Amazon, or \$75 at Home Depot, but I had to drive to Home Depot. I still bought it on Amazon, because of the convenience factor of having it delivered to me.

And yet I had this one experience that radically changed the way I think about the world. It happened a couple years ago, but it really did change the way that I think about the entire Econ 101 framework that we've all been taught to think about.

So, I was about 9 months pregnant, I went to buy a car seat for my child. And if you've ever bought a car seat, you know that, first of all, they up-sell you. They tell you, "It's your child's life, you have to buy the most expensive one or else you're a bad parent!" And they're final sale. So, obviously, I buy the most expensive one, I go home, I go to put it in my car, and it doesn't fit in my car. So my husband convinced me we should get another car.

So, down we go to the dealership, and I told him, "I'm in charge." He knows, but I'm reminding him. We're going down, and I say to him, "I will do the negotiations, and then at some point, this gentleman will go find his manager." I explained to my husband: there is no manager, it's a salesman negotiation tactic. We all know this, right? So we negotiate, I'm very happy with the car, and then I'm waiting for my sales guy to go talk to his manager so I can inform my husband that it's a good deal. And he doesn't leave us. So I start creating all these reasons why he should go ask for water, get someone to bring it to him, I ask to use the washroom, I'm 9 months pregnant, he says, "Oh, we'll just sign, I'll show you where it is after." Fine.

I went home and I called my brother, who is a car salesman in Montreal. So I guess my mom was right about the whole potential thing. Just kidding, he's very good at his job, and he's more successful than me. If you need a car in Montreal... Anyways, I called my brother, I told him the whole story. He goes, "Oh, Frances, you don't understand how the economy works."

He's like... He says to me, "I cannot leave my client alone for even one second", because if he does, what happens? They'll pull out this, and right away, they

know. Did they get the best price? Who can give them a better price? My brother even tells me he had someone buy a car from another dealership while sitting in his office. I know. I thought that was hilarious.

In any case, in this moment, and I tell this story because it really did transform the way that I see the world. It occurred to me that this is not really about Amazon. This is about the access to pricing information that all consumers carry with us everywhere we go. That no matter what we buy, we know. Are we getting the best price, and where do we get a better price? It means that we, as consumers, become the ultimate bargainers. We have all of the price-setting power.

Why is this transformative? Because in the past, tariffs, higher minimum wages, higher oil, all of these higher input costs could easily be passed on to consumers. In this new world, it is not possible. We have seen several periods in the past three or four years where input costs have risen, companies talk about input prices rising, but have not passed them on to the end consumer. They cannot, or they will lose the product, they will lose the sale. This is the transformative development in this environment.

It should not be a surprise to us that when we look at inflation data, here's inflation data for e-commerce products and brick and mortar store products. E-commerce prices are now falling 2% year over year, and they have been since 2008. People think that's related to the great financial crisis, but actually, 2008 is when we had a ton of unproductive resources around, and these people actually invested in digitalization of the economy. Since we've seen the digitalization of the economy, we have seen consistent deflationary pressures in e-commerce stores. It should be no surprise to us that these same products, when we buy them at brick and mortar stores, have also had to follow that price lower.

What is the Bank of Canada's inflation target? 2%. How are we going to get there when everything we buy is falling by 2%? I don't think we will. I think we live in a new paradigm where we are stuck in an environment where prices will really struggle to rise and our whole paradigm for thinking about how that's going to happen needs to change, and it needs to change very quickly.

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