

Economics

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Canadian retail (Dec, Jan adv): A healthy advance

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Retail sales (period/period % chg)	22:Q2 ¹	22:Q3 ¹	22:Q4 ¹	Oct	Nov	Dec	Dec Y/Y
Total retail sales	11.7	-4.2	4.5	1.3	0.0	0.5	7.3
• Vehicle & parts dealers	-11.5	5.3	11.5	0.4	1.3	3.8	2.8
• Total ex-vehicle & parts dealers	21.0	-7.2	2.1	1.6	-0.5	-0.6	9.0
Total real retail sales	1.5	-5.2	0.9	0.1	-0.4	1.3	2.8

Source: Statistics Canada

- Canadian retail sales rose by 0.5% in December, in line with the consensus expectations and the advance estimate. As expected, the advance was driven by auto sales, while the sharp drop in gasoline prices weighed on the ex-auto number. Overall, retail sales increased in 7 of 11 subsectors, and a healthy gain in volume terms suggests consumers continue to be resilient.
- Core retail sales (ex-auto and gasoline) rose by 0.4% in December, and total sales in volume terms increased by 1.3%. The rebound in core retail sales was led by higher sales at general merchandise stores (+1.7%), which grew for the third time in four months. Statistics Canada remarked that this is the result of consumers looking for options to grocery stores in the face of elevated food prices. Those gains were partially offset by a decline in spending on discretionary goods tied to the slowdown of the housing market, such as building materials & garden equipment (-3.8%) and furniture and home furnishings (-2.4%).
- The increase in core retail sales was compounded by the fifth consecutive monthly increase in sales of motor vehicles and parts, which jumped 3.8%. The increase was led by sales of new cars, as the improvement in supply chains and pent-up demand for vehicles provide a boost to the sector. Meanwhile, sales at gasoline stations provided a strong offset (-5.8%). However, this decline reflected the large drop in oil prices in January, as in volume terms sales at gasoline stations increased 4.7%.
- For 2022 as a whole, nominal retail sales increased 8.2%, though that mostly reflected higher prices. In volume terms retail sales grew 1.5% in 2022.
- On a provincial basis, sales were up in four provinces in December, including Ontario, Quebec and Alberta. Sales declined the most in BC, largely due to a drop in sales at gasoline stations.
- The advance estimate for January suggests that retail sales grew 0.7% to start the year, though that will look less impressive in volume terms. However, the two months taken together continue to suggest that the economy, and the consumer, are holding up better than expected in the face of higher interest rates.

Implications & actions

Re: Economic forecast — Retail sales in volume terms posted a healthy gain in December, and while the advance estimate for January suggests a less impressive number to start the New Year, this data supports our expectations for

¹ Annualized.

modest consumption growth in the first quarter. However, with savings no longer as bloated as they once were, particularly in inflation-adjusted terms, and with rates having been raised further, household consumption should still see some modest declines later in 2023. Combined with lower-than-expected inflation for January, today's data will not prompt the Bank of Canada to come off the sidelines.

Re: Markets — Any market reaction this morning was in response to the CPI data, rather than the as-expected retail sales report. Bond yields fell slightly and the Canadian dollar depreciated on weaker-than-anticipated inflation.

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