

Economics

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Canadian retail sales (Oct); A temporary acceleration

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Retail sales (period/period % chg)	23:Q1	23:Q2	23:Q3	Aug	Sep	Oct	Oct Y/Y
Total retail sales	2.6	-0.3	2.6	-0.1	0.5	0.7	2.2
• Vehicle & parts dealers	17.3	-1.5	2.6	-0.7	1.7	1.1	7.8
• Total ex-vehicle & parts dealers	-2.1	0.1	2.6	0.2	0.1	0.6	0.2
Total real retail sales	6.3	-0.1	-2.1	-0.7	0.2	1.4	2.8

Source: Statistics Canada

- Canadian retail sales perked up in October, particularly in volume terms which posted the largest monthly increase since December 2022. However, this pick-up in spending is likely to prove temporary. The advance estimate for November pointed to little change in sales for that month, while there was further evidence that the Canadian labour market is weakening from the survey of employers also released this morning. A weaker labour market, combined with the continued impact of high interest rates, will likely see Canadian consumer spending weaken again in the first half of 2024.
- Headline retail sales rose by 0.7% in October, which was broadly in line with the consensus forecast and advance estimate of +0.8%. It was also an acceleration from a slightly downwardly revised 0.5% gain in the prior month. The increase in October looked even more impressive in volumes terms, which rose by 1.4%, as lower gasoline prices weighed on the nominal headline figure. That increase in retail volumes was the strongest since last December. Relative to a year ago, sales volumes were up by 2.8%, although that would still represent a slight decline in per-capita terms given strong population growth seen over the past year.
- Increases in sales were reasonably broad-based in October, with the exception of gasoline due to a decline in prices over the month. Clothing (+2.4%), general merchandise (+2.0%) and health care (+1.5%) retailers posted the strongest monthly increases in sales. On a provincial basis, the only area of the country to see a decline in sales was Alberta. The strength in consumer spending during October wasn't just confined to retailing, as data for restaurants also released this morning pointed to a respectable 1.0% increase in nominal sales compared with the previous month.
- However, October's pick-up in spending doesn't appear to have continued into November, with advance indicators pointing to flat sales during that month. Also, consumer spending ahead will likely be hampered by further weakening in the Canadian labour market, with data today from a survey of employers pointing to a 45K decline in payrolls during October.
- The weakness in payrolls employment was reasonably broad-based across sectors, with only health care and public administration reporting job gains during the month. Job vacancies held broadly steady at their lowest since February 2021, with the vacancy rate of 3.6% also unchanged. There were 1.9 unemployed persons for every vacancy in October, up from a low of 1.3 earlier in the year and very close to the pre-pandemic range of 2.0-2.3. Fixed weight wage growth decelerated to 3.9%, from a downwardly revised 4.2% in the prior month, although that pace remains above the range that policymakers at the Bank of Canada will be happy with.

Implications & actions

Re: Economic forecast — Consumer spending was little changed in both the second and third quarters of 2023, but early evidence suggests that it will likely be a positive contributor to overall GDP in the final quarter. However, the pick-up in inflation-adjusted spending may prove to be temporary, as more households refinance at higher interest rates and the weakening labour market constrains spending once again.

Re: Markets — Bond yields fell following today's release, as investors focussed on the weak payroll employment figure and a downward revision to Q3 GDP in the US.

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