

Economics

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Canadian retail sales (Nov, Dec adv); The trend is still not a friend

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Retail sales (period/period % chg, quarters are annualized % chg)	25:Q1	25:Q2	25:Q3	Sep	Oct	Nov	Nov Y/Y
Total retail sales	4.5	1.3	0.5	-0.7	-0.3	1.3	3.1
• Vehicle & parts dealers	-5.3	6.9	-4.5	-2.9	0.4	0.3	-2.3
• Total ex-vehicle & parts dealers	8.5	-0.8	2.5	0.1	-0.6	1.7	5.3
Total real retail sales	0.8	2.5	-1.3	-0.9	-0.7	1.1	1.5

Source: Statistics Canada

- Even following a strong gain in November, the trend in Canadian retail sales isn't particularly friendly. With the November increase following declines in the prior two months, and with December's advance data pointing to a slight give-back, sales volumes appear to have fallen for a second consecutive quarter in Q4. Muted consumer spending should keep a lid on inflationary pressures ahead, allowing the Bank of Canada to hold rates at current levels to try and support a recovery in activity during 2026.
- The 1.3% increase in sales during November was a tick above the advance estimate and consensus forecast, and reflected a 1.1% gain in inflation-adjusted terms. Core retail sales (ex autos and gasoline) rose by 1.6%, on the back of broad-based increases and led by food & beverage stores.
- The gain in food & beverage stores largely reflected an increase of 14% in liquor stores, which rebounded following an October decline that was driven by a labour dispute in BC. Sales in other areas of the food & beverage sector were also up on the month, albeit more modestly.
- However, even after the latest increase, overall sales volumes remained weaker than they were in August, following the declines seen in October and November. Moreover, the advance estimate for December suggested that sales pulled back again with a 0.5% nominal reduction estimated. Assuming that real sales also post a modest decline during the final month, retail sales volumes appear to have fallen slightly again in Q4 (-1.5% annualized), which would be similar to the decline seen in Q3 and combined would offset the increase in Q2. Since the start of the year, retail sales volumes remain on a broadly sideways trend.
- Released alongside the retail sales report, advance manufacturing data for December pointed to a modest gain of 0.5% although, if confirmed, that would offset only around half of the decline seen in November.

Implications & actions

Re: Economic forecast — The still unfriendly trend in retail sales even after accounting for November's gain shows that consumers are still being cautious regarding spending. That caution will likely translate into a further easing in core measures of inflation, which supports our view that the Bank of Canada can keep interest rates steady at current levels to try and support an acceleration in growth.

Re: Markets — Bond yields and the Canadian dollar were higher prior to the release, and that trend continued following the data.

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