

Economics

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April 24, 2024

Canadian retail sales (Feb, Mar adv.): Losing momentum

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Retail sales (period/period % chg)	23:Q2	23:Q3	23:Q4	Dec	Jan	Feb	Feb Y/Y
Total retail sales	-2.0	2.5	4.3	0.6	-0.3	-0.1	1.2
• Vehicle & parts dealers	-7.8	4.5	14.9	0.9	-2.3	0.5	0.4
• Total ex-vehicle & parts dealers	0.3	1.7	0.7	0.6	0.4	-0.3	1.5
Total real retail sales	-1.4	-1.6	4.1	0.6	0.5	-0.3	0.9

Source: Statistics Canada

- Canadian retail sales retreated further in February, as Canadians are becoming more cautious about spending as mortgages come up for renewal. The 0.1% decline in nominal sales was below the consensus expectation of +0.1%, and sales were down in five of nine subsectors, led by gasoline, and in seven provinces. Things didn't look any better in volume terms, as real sales dropped off by 0.3%, but volumes were flat in the ex. auto/gasoline group. Overall, this report highlights the weak consumer backdrop in Canada, following a boost to sales volumes at the start of the year from warmer than normal winter weather, and we continue to expect a June rate cut from the Bank of Canada.
- Gasoline sales dropped sharply while prices rose, leaving volumes down by 3.9%. That followed a surge in gasoline volumes in the prior month. Auto sales partly recovered after plummeting in January, but industry reports suggest that March could see a slower pace of sales, and signs of a slowdown in luxury car sales could filter through into more weakness in the nominal sales data ahead. Unit sales of cars surpassed their pre-pandemic pace for the first time in February, although they are still a little below that mark in per-capita terms.
- Core retail sales, which exclude the volatile gasoline and auto categories, were flat in February, but many discretionary categories showed drops (furniture, electronics, appliances, clothing). The decline in building materials followed a surge in January, as warmer weather likely pulled forward spending. Some of these drops reflected lower prices, as sales volumes in the core group were also flat.
- On a per-capita basis, total real sales are 2.2% below year-ago levels. The advance estimate for March suggested that sales were unchanged in that month, although some of that weakness will reflect lower goods prices.

Implications & actions

Re: Economic forecast — Real goods spending for the quarter a whole still looks healthy, but that reflects the boost to activity at the turn of the year from mild winter weather. Momentum has clearly waned since then, and spending will remain under pressure with the unemployment rate rising and mortgages continuing to renew at higher interest rates. As a result, the BoC will likely start trimming interest rates in June.

Re: Markets — Bond yields and the Canadian dollar fell slightly following the downside surprise in the release.

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