

Economics

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Canadian retail sales driven higher in July

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Retail sales (period/period % chg, quarters are annualized % chg)	23:Q4	24:Q1	24:Q2	May	June	July	July Y/Y
Total retail sales	4.3	-1.9	-1.7	-0.8	-0.2	0.9	0.9
• Vehicle & parts dealers	14.9	-7.3	-8.1	0.2	-1.6	2.2	1.2
• Total ex-vehicle & parts dealers	0.7	0.2	0.8	-1.2	0.3	0.4	0.8
Total real retail sales	5.4	0.5	-0.8	-0.8	0.2	1.0	2.2

Source: Statistics Canada

- Retail sales started the third quarter on solid footing, helped by a rebound in autos following software issues in the prior month that held back purchases. The 0.9% advance in total sales was three ticks above the consensus and advance estimate, and looked even better in volume terms, with a 1.0% rise. The upside surprise in the headline versus the July advance estimate adds upside to GDP for that month, in line with the earlier released wholesale trade data, with GDP for July likely to show a moderate gain, rather than the stall suggested by the advance estimate.
- The strength was relatively broad-based, as seven of nine subsectors recorded gains, with ex. auto sales up by 0.4%, a tick above the consensus expectation. Grocery store and health/personal care store receipts were particularly strong. Categories tied to the housing market still look very weak, with furniture/appliance sales 2.8% below year-ago levels, and building materials sales 4.2% below year-ago levels.
- In the context of population growth, these figures still look unfavourable, with real per-capita sales 1.3% below year-ago levels, and the further deterioration in the labour market portending weaker discretionary consumption ahead. The advance estimate for August sales showed a 0.5% increase, which should match the volume increase given that goods prices were flat on the month.

Implications & actions

Re: Economic forecast — Retail sales volumes are on track to show an impressive gain of roughly 4% annualized in the third quarter, helped by the one-time impact of a rebound in autos. However, that follows a string of lacklustre readings in the first half of the year, and the sharp rise in the unemployment rate suggests that pace won't be sustained, especially as mortgage renewals continue at higher interest rates versus five years ago. The Bank of Canada will therefore still need to ease interest rates at each of the next two meetings this year, with more to come in 2025, in order to prevent a broader slowdown in the economy.

Re: Markets — There was little market reaction to the data, as the strength is likely to short-lived and won't sway the Bank of Canada from easing, given worrisome signals from the labour market.

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