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April 21, 2023

Canadian retail (Feb, Mar adv): Earlier momentum starting to fade

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Retail sales (period/period % chg)	22:Q2[1]	22:Q3[1]	22:Q4[1]	Dec	Jan	**Feb**	Feb Y/Y
Total retail sales	12.0	-3.0	3.8	0.0	1.6	-0.2	4.3
• Vehicle & parts dealers	-7.3	5.9	9.5	2.2	3.6	0.9	7.4
• Total ex-vehicle & parts dealers	19.4	-5.9	1.9	-0.7	0.9	-0.7	3.2
Total real retail sales	2.8	-2.6	1.2	0.7	1.8	-0.7	1.4

Source: Statistics Canada

- The start of the year surge in retail spending appears to be gradually fading, with a modest 0.2% decline in February (consensus -0.7%) estimated to be followed by a sharper 1.4% drop in March. With retail sales volumes having risen only modestly over the past year, which would represent a decline in per-capita terms, it is clear that consumer spending behaviour has been impacted by the rapid rise in interest rates even as the economy as a whole has generally outperformed expectations.
- Gasoline stations led the decline in February, although that was mostly due to lower volumes rather than prices this time around. Sporting goods and general merchandise stores also saw declines in sales during the month.
- Auto sales increased for a ninth consecutive month, with new and used cars, as well as parts, all seeing gains relative to the prior month as prior supply chain issues continue to fade. Clothing retailers also saw an increase in sales during the month. Core retail sales (ex auto and gasoline) were little changed on the month.
- While the advance estimate for March suggests a steep 1.4% drop, that was derived from responses covering only 28% of companies normally surveyed, and as such could be heavily revised. In the prior month, the advance estimate was based off responses from 51% of firms that are normally surveyed.
- In volume terms, sales were down by 0.7% in February to stand only 1.4% higher than a year ago. This would be a decline in per-capita terms, and the year-over-year growth in total sales volumes is being flattered somewhat by the easing of supply chain pressures in the auto sector which is allowing dealers to catch up with prior orders. Indeed, over the past six months, retail sales volumes have been driven exclusively by autos. Ex-auto sales in volume terms are down 1% over that time period, and have posted declines in four out of the past six months.

Implications & actions

Re: Economic forecast — Even though the economy as a whole has performed better than expected recently, the sluggishness in ex-auto retail spending volumes is a sign that higher interest rates are indeed having an impact on consumer spending decisions, despite the excess levels of savings held by households. This sluggishness in spending should help keep goods price inflation under control (assuming supply chain issues don't worsen again), allowing the Bank of Canada to stay on hold for the remainder of this year before gradual cuts start early in 2024.

[1] Annualized.

Re: Markets — Bond yields fell after today's release, with markets seemingly focussed on the negative advance print for March rather than the slightly better than expected February reading.