

Economics

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Canadian retail sales (Sep): One quarter does not make a trend

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Retail sales (period/period % chg, quarters are annualized % chg)	24:Q1	24:Q2	24:Q3	Jul	Aug	Sep	Sep Y/Y
Total retail sales	-1.9	-1.7	3.5	0.9	0.4	0.4	0.8
• Vehicle & parts dealers	-7.3	-7.3	15.7	2.3	3.8	-0.7	2.2
• Total ex-vehicle & parts dealers	0.2	0.5	-0.7	0.3	-0.8	0.9	0.3
Total real retail sales	-1.8	-3.0	5.2	0.8	0.9	0.8	1.7

Source: Statistics Canada

- Retail sales have put in a good quarter but don't break out the champagne just yet, given that this comes after two quarterly declines in volume terms. Total sales rose by a healthy 0.4% in September, and the increase looked even better in volume terms, at 0.8%. That capped a nice rebound in Q3 as a whole, with volumes up by 5.2% annualized, although that merely erased the prior two quarters' declines. The good news extended into October, with the advance estimate of sales at an impressive 0.7%, which should match the volume gain given flat goods prices. While this data increases the odds of a 25bp cut rather than our current call for 50bps from the BoC in December, if the upcoming employment or GDP reports are weak enough there would still be reason for the BoC to deliver a larger move, particularly in the context of upwards pressure on 5yr rates that could slow the transmission of monetary policy into the economy.
- The headline was in line with consensus expectations, and gains were broad based, with six of nine subsectors advancing. Spending was likely supported by lower gasoline prices that left more money for spending in discretionary categories. Excluding the volatile auto sector, sales were up by a lofty 0.9% (vs. 0.4% expected). Grocery stores led the increases, with building materials also a material contributor, in line with the pickup being seen in housing market activity. However, that still leaves per-capita retail sales volumes 1.8% below year-ago levels.
- The 3.5% annualized rebound in nominal quarterly sales was driven entirely by autos early on in the quarter, with the ex. autos group down by 0.7% annualized. Auto sales in Q2 had been held back by software issues at dealerships and production delays in the US. The increase in sales will bring the inventory-to-sales ratio for autos down, which had climbed to well above pre-pandemic levels in Q2.
- The upcoming GST holiday will provide a boost for retail sales in December but it could dent activity in November as consumers delay purchases. Overall, elevated inventory levels in the retail sector suggest that increased demand doesn't pose a threat to inflation at this point.

Implications & actions

Re: Economic forecast — It's too early to establish a higher trend in spending, and there is ample lost ground to make up still in per-capita terms, but lower interest rates should work to boost per-capita spending in 2025. There's still scope for the BoC to cut by 50bps in December if the upcoming GDP and employment data look weak enough, however, as interest rates are still well above neutral levels and the below-neutral level of 2.25% that we see as necessary to reach by mid-2025 in order to see a sustained pickup in housing and consumption.

Re: Markets — The loonie gained ground and bond yields increased given the broad based upside in the report.

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