

Economics

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Canadian retail sales (Oct): Taking a breather

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Retail sales (period/period % chg, quarters are annualized % chg)	24:Q1	24:Q2	24:Q3	Aug	Sep	Oct	Oct Y/Y
Total retail sales	-1.9	-1.7	4.4	0.5	0.6	0.6	1.5
• Vehicle & parts dealers	-7.3	-7.3	16.6	3.8	-0.7	2.0	3.6
• Total ex-vehicle & parts dealers	0.2	0.5	0.2	-0.8	1.1	0.1	0.7
Total real retail sales	-1.8	-3.1	5.7	0.8	1.1	0.0	1.4

Source: Statistics Canada

- Canadian retail sales posted a second consecutive 0.6% advance in October, although the details were not as strong as in the prior month. Much of the gain in October sales was driven by prices, and by increased spending in the often volatile auto sector. Combined with an advance estimate for no change in November, it appears that growth in retail sales volumes is taking a breather following the surge seen in Q3.
- Ex auto sales rose by a muted 0.1%, although that followed an upwardly revised 1.1% pop in the prior month. Core sales (which exclude gas stations as well) edged up by 0.2%. Total sales were flat in volume terms, although that followed strong growth in each of the previous two months.
- The sector breakdown showed strong gains in furniture and electronic stores, as well as the previously mentioned gain in autos. These were partly offset by lower sales in food & beverage and building material & garden equipment suppliers.
- The advance estimate for November pointed to no change in sales relative to the prior month. However, the announcement by the Federal government in late November of a GST holiday beginning mid-December may have encouraged some households to defer purchases and therefore could have dampened November retail sales slightly. We will need to see the December data to get a full view of holiday spending.
- Released alongside the retail sales data, an early estimate for wholesale trade in November pointed to a 0.7% decline relative to the prior month. Combined with the flat reading for retail, today's data suggest that overall GDP growth may have failed to pick up as expected in November, although we will receive a full view of that on Monday.

Implications & actions

Re: Economic forecast — Even though the latest release wasn't as strong as the prior one, consumer spending has still improved relative to the trend seen earlier in the year. However, that fact is to be welcomed and not feared from an inflation point of view. Evidence of bloated inventory levels in the retail sector during the first half of the year showed plenty of room for spending to accelerate without necessarily resulting in upward pressure on prices. We think that further interest rate cuts will be needed by the Bank of Canada in the New Year to fully unlock this potential and prevent inflation was falling below the 2% inflation target in 2025.

Re: Markets — Bond yields fell slightly following the release, although that was driven more by slightly weaker than anticipated core PCE figures in the US. The Canadian dollar was little changed versus its US counterpart.

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