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Canadian retail sales hit the accelerator in December

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Retail sales (period/period % chg)	23:Q2	23:Q3	23:Q4	Oct	Nov	Dec	Dec Y/Y
Total retail sales	-0.3	2.3	4.2	0.5	0.0	0.9	2.9
• Vehicle & parts dealers	-1.5	2.7	12.8	0.8	0.9	1.9	7.4
• Total ex-vehicle & parts dealers	0.1	2.2	1.3	0.4	-0.4	0.6	1.3
Total real retail sales	0.2	-1.3	5.3	1.0	0.0	0.8	2.2

Source: Statistics Canada

- Canadian retailers ended the year on solid footing, as retail sales rose by 0.9% in December, a tick above the advance estimate and the consensus expectation. The increase was concentrated in auto sales (+1.9%), with a fading of supply chain issues supporting activity in that subsector, something that we expect has more room to run ahead. Retail sales ex. autos and gasoline rose by a still healthy 0.5%, on mixed performances amongst sub-sectors, while total sales volumes were up by 0.8%. Combined with the positive revision to the November data (now flat vs. -0.2% prior), this adds some upside to GDP for the quarter.
- Sales in Q4 were overwhelmingly concentrated in autos, which accounted for 77% of the quarterly increase. That's being facilitated by an easing of supply constraints, which doesn't pose a risk to inflation from the Bank of Canada's standpoint. Policymakers will be more concerned with spending in other categories, with four of nine subsectors showing decreases on the month. Sales volumes also declined in some key discretionary categories — clothing, sporting goods, and furniture — a sign of weak demand that may have extended into January based on the drop in the advance sales estimate for that month.
- Grocery store sales rebounded by 1.6%, following a drop of the same magnitude in the prior month, with volumes up strongly as well. Food price inflation eased to the slowest pace seen in over two years in January, which could limit grocery store receipts in that month. On a provincial basis, sales were up in eight provinces, with Ontario and BC seeing the largest increases, with the former tied to higher car sales and the latter to higher grocery store receipts.
- While sales are up by 2.9% y/y, in per-capita terms, things don't look as rosy, as sales are flat in year-over-year terms. The advance estimate for sales in January suggested a 0.4% drop, which will likely reflect lower prices in several categories combined with weaker demand in some discretionary subsectors as spending is constrained by high interest rates.

Implications & actions

Re: Economic forecast — After consumer spending stagnated in the third quarter, it returned to a positive growth contributor in the fourth quarter, but we don't expect the momentum to last given the weak January advance estimate, as consumers are becoming more cautious with mortgages up for renewal.

Re: Markets — There was little market reaction to the data, as the slight beat on the headline was offset by a downbeat advance reading for the start of 2024.

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