

Economics

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Canadian retail sales (Feb, Mar adv); Spending before the squeeze

by **Andrew Grantham** andrew.grantham@cibc.com

Retail sales (period/period % chg, quarters are annualized % chg)	25:Q2	25:Q3	25:Q4	Dec	Jan	Feb	Feb Y/Y
Total retail sales	0.7	0.7	1.6	-0.4	1.2	0.7	3.8
• Vehicle & parts dealers	6.6	-6.0	-4.4	-1.0	2.0	1.0	5.9
• Total ex-vehicle & parts dealers	-1.5	3.4	3.9	-0.2	1.0	0.5	3.1
Total real retail sales	2.2	-1.1	-2.0	-0.3	1.1	0.3	2.3

Source: Statistics Canada

- Canadian retail sales continued their strong start to the year in February, although tougher tests are still to come as higher gasoline prices start to squeeze household incomes. Indeed, even though March's advance estimate pointed to a healthy gain in nominal terms, in volume terms it appears that sales may have already stalled. If higher gasoline prices squeeze incomes enough to negatively impact spending in other areas, that will lessen the likelihood that inflationary pressures will broaden across the economy and enable the Bank of Canada to keep interest rates on hold.
- The 0.7% increase in headline sales during February was slightly below the consensus forecast and advance estimate (0.9%), but built on a marginally upwardly revised 1.2% gain in the prior month. Core sales (ex autos and gasoline) rose by 0.6%, while overall sales volumes increased by 0.3%. On a year-over-year basis, sales volumes were up by 2.3% in February, which would represent a solid increase in per-capita terms as well given the stall in population growth seen over the past year.
- Sales rose by approximately 1% on the month in each of the autos, food & beverage, general merchandise and clothing sectors. Only partly offsetting those gains were declines in the building materials and furniture & electronics sectors, with sales there potentially hindered by a still-weak housing market.
- The advance estimate for March pointed to a solid-looking 0.6% increase in overall sales, although the sharp rise in gasoline prices during the month will be flattering that nominal figure. Goods prices were up by more than 1% after seasonal adjustment within the March CPI figures, so the advance estimate for retail sales could represent a broadly flat move, or even a slight decline, in volume terms.

Implications & actions

Re: Economic forecast — Overall, it appears that retail sales in Q1 have posted their best quarter for growth since before US trade tensions started to negatively impact consumer sentiment. However, with higher pump prices limiting the ability of some households to make discretionary purchases, we expect consumer spending to slow again in volume terms during Q2. That slowing in spending should limit the spread of inflationary pressures to other areas of the economy, enabling the Bank of Canada to keep interest rates on hold through 2026.

Re: Markets — Financial markets were reacting mainly to headlines related to the Middle East war and oil prices this morning, and today's data saw little reaction.

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