

Economics

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June 21, 2024

Canadian retail sales (Apr, May adv.): Patchy growth, at best

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Retail sales (period/period % chg, quarters are annualized % chg)	23:Q3	23:Q4	24:Q1	Feb	Mar	Apr	Apr Y/Y
Total retail sales	2.5	4.3	-1.3	0.0	-0.3	0.7	1.8
• Vehicle & parts dealers	4.5	14.9	-6.5	0.7	1.0	-2.2	2.3
• Total ex-vehicle & parts dealers	1.7	0.7	0.7	-0.3	-0.8	1.8	1.6
Total real retail sales	-1.5	4.2	0.4	-0.1	-0.5	0.5	0.8

Source: Statistics Canada

- Growth in Canadian retail sales remains patchy, at best. Headline sales rose by 0.7% in April, matching the advance estimate and consensus forecast, as a surge in ex-auto sales more than offset a decline at the car lots. However, the advance in overall sales looked somewhat less impressive in volume terms, only just offsetting a decline in the prior month, meanwhile the advance estimate for May pointed to a sharp drop in sales once again. This patchy growth in retail sales shows that households are struggling in a high interest rate environment, and more rate cuts from the Bank of Canada will be needed to provide meaningful relief.
- While the headline 0.7% rise in sales was in-line with the consensus projection and advance estimate, the composition of growth was better than anticipated. A 1.8% surge in ex-autos sales was well above the consensus forecast (0.6%) and offset a decline in the volatile auto sector. Gasoline stations saw the largest increase on the month, albeit helped by higher pump prices, while food & beverage stores also posted strong growth. Some areas of discretionary spending (clothing, miscellaneous) also posted large increases, recouping some ground lost in prior months. However, other areas such as furniture and sporting goods continued to struggle.
- The decline in the auto sector was driven by lower sales at new car dealers, with the near-3% decline taking sales to their lowest since last August. A second successive increase in parts & accessories provided a partial offset.
- In inflation-adjusted terms, the April advance in overall sales (+0.5%) looked somewhat less impressive and only offset a decline of similar magnitude in the prior month. In year-over-year terms the 1.8% and 0.8% increases in both nominal and real retail sales remain well below the pace of population growth, signaling declines in per-capita terms.
- The advance estimate for May pointed to a 0.6% decline in headline sales. Although lower gasoline prices that month could have impacted this figure, it still likely represents a modest decline in volume terms.

Implications & actions

Re: Economic forecast — Household spending was driven mainly by services in Q1, and early indications for the second quarter suggest that the goods side of spending likely won't be a big contributor to growth in Q2 either. The broadly flat trend in retail sales volumes recently, which represents a fairly large decline in per-capita terms, shows that individual households are continuing to make cut backs in spending in a high interest rate environment, and an acceleration is unlikely until rates come down more meaningfully. We continue to expect three more 25bp reductions to the Bank of Canada's overnight rate before the end of the year, including a move at the next meeting in July.

Re: Markets — Canadian bond yields were slightly lower, although that move followed an earlier decline in US yields rather than representing a response to the retail sales data. The Canadian dollar saw only a slight depreciation against the greenback.

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