

Economics

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Canadian retail sales (May, Jun adv.): Tough going

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Retail sales (period/period % chg, quarters are annualized % chg)	23:Q3	23:Q4	24:Q1	Mar	Apr	May	May Y/Y
Total retail sales	2.5	4.3	-1.7	-0.3	0.6	-0.8	1.0
• Vehicle & parts dealers	4.5	14.9	-6.7	1.0	-2.2	0.8	3.3
• Total ex-vehicle & parts dealers	1.7	0.7	0.3	-0.7	1.7	-1.3	0.2
Total real retail sales	-1.5	5.5	0.6	0.0	0.4	-0.7	0.7

Source: Statistics Canada

- It remains tough going for Canadian consumers and by extension retailers, with further interest rate cuts needed to provide meaningful relief. Headline retail sales fell by 0.8% in May, and ex-auto sales were down 1.3%. Both of those declines were worse than consensus expectations and broadly offset gains in the prior month, suggesting a sluggish underlying trend in sales that provides the Bank of Canada one more reason to continue cutting interest rates next week.
- The May decline was broad-based, with eight of nine subsectors seeing lower sales. Building materials, food & beverage and clothing saw the sharpest declines. In volume terms, sales at food and beverage stores dropped to their lowest since mid-2016. Motor vehicles & parts was the only subsector to post an increase in sales during May, albeit only a modest one.
- In volume terms, total sales were 0.7% lower compared with the prior month. For the first two months of Q2, the average volume of retail sales was broadly in line with the average for the first quarter, suggesting that consumer spending on goods will have little impact on Q2 GDP. On an annual basis, sales volumes were up by 0.7%, which would represent a sizeable decline in per-capita terms given that population growth is north of 3% y/y.
- The advance estimate for June pointed to a further 0.3% decline in headline sales. That figure was likely negatively affected by software issues that impacted car dealerships in both Canada and the US, although with no detail available yet we don't know just how big that impact was. In US data released earlier this week, the dip in auto sales subtracted -0.4%-pts from the headline figure.

Implications & actions

Re: Economic forecast — Even accounting for the potential temporary impact of auto sales on the June advance estimate, Canadian retail sales appear to be on a soft trend and that provides one more reason for the Bank of Canada to continue cutting interest rates next week. While consumer spending was still likely a positive contributor to Q2 GDP, it appears that growth will come from services and overall will be much more modest than in the previous two quarters.

Re: Markets — Canadian bond yields fell and the loonie weakened against the US dollar following today's somewhat softer-than-expected retail sales data.

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