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Canadian retail sales (Sep, Oct adv); Softening not slumping

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Retail sales (period/period % chg, quarters are annualized % chg)	25:Q1	25:Q2	25:Q3	Jul	Aug	Sep	Sep Y/Y
Total retail sales	4.5	1.3	0.6	-0.8	1.0	-0.7	3.4
• Vehicle & parts dealers	-5.3	6.9	-4.2	0.2	1.6	-2.9	3.0
• Total ex-vehicle & parts dealers	8.5	-0.8	2.6	-1.2	0.8	0.2	3.5
Total real retail sales	0.9	2.8	-1.2	-0.9	0.9	-0.8	1.2

Source: Statistics Canada

- Canadian retail spending appears to be softening following a stronger-than-expected second quarter, but it isn't yet slumping and as a result likely won't worry the Bank of Canada at this stage. We continue to forecast that the Bank will move to the sidelines and hold rates steady in December, with that pause potentially lasting throughout 2026 as well.
- Headline sales fell by 0.7% in September, which was in line with the advance estimate and consensus projection. However, the details were a little more positive, with much of the headline drop driven by the volatile auto component (-2.9%). Partly offsetting that, gasoline sales rose on the month, linked entirely to higher prices.
- Core sales (ex auto and gasoline) were little changed on the month, with gains in sporting goods and food stores offset by declines in building equipment and clothing. Core retail sales are up by 4.1% year-over-year, which is slightly above the overall pace of retail spending (3.4% y/y).
- Total retail sales volumes fell by 0.8% in September, and were down by 1.2% annualized for Q3 as a whole. However, that decline follows solid growth in the prior quarter, and in year-over-year terms sales volumes were still up by 1.2% as of September. That would represent a marginal increase in per capita terms, given that population growth has slowed dramatically to less than 1% y/y (on the quarterly count).
- The advance estimate for October suggested headline sales were little changed to start Q4. However, with gasoline prices falling during that month (after seasonal adjustment), sales could look a little better in volume terms.

Implications & actions

Re: Economic forecast — Overall, Canadian consumer spending doesn't appear to be particularly strong, but also isn't as weak as we would likely have expected given an unemployment rate close to 7%. As a result today's data doesn't change the view that the Bank of Canada will move to the sidelines and hold interest rates steady at its December meeting.

Re: Markets — Bond yields and the Canadian dollar were little changed following the largely on-consensus print.