

Economics

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Canadian retail sales are no match for US boom

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Retail sales (period/period % chg)	22:Q3	22:Q4	23:Q1	Apr	May	Jun	Jun Y/Y
Total retail sales	-3.0	3.8	2.6	1.0	0.1	0.1	-0.6
• Vehicle & parts dealers	5.9	9.5	17.3	0.7	1.1	2.5	7.6
• Total ex-vehicle & parts dealers	-5.9	1.9	-2.1	1.1	-0.3	-0.8	-3.3
Total real retail sales	-0.8	3.6	5.2	0.2	-0.1	-0.2	0.6

Source: Statistics Canada

- Canadian consumers ended the second quarter on a cautious note, and unlike their American cousins, don't seem to be rushing to the stores at the start of Q3. Retail sales rose by only 0.1% in June, and that modest increase was entirely driven by autos, some of which might have been ordered months ago, as non-auto sales were down by 0.8%. That compared to the consensus expectation of 0.0% and 0.3% for total and ex. auto sales, respectively. Compounding the soft tone of the release was a downward revision to the prior month, with ex-auto sales now showing a 0.3% decline, relative to a flat prior reading. In volume terms, sales were down by 0.2% in June, and are up by only 0.6% in year-over-year terms, which would look even weaker in per-capita terms given strong population growth over the past year.
- Strong consumption in the first quarter gave the Bank of Canada reason to resume rate hikes, but consumers throttled back over the spring. Real retail volumes were down by 0.8% in the second quarter, although growth in services will provide some offset to that. While the advance estimate for July sales suggested a 0.4% increase, that will likely look softer in volume terms, and was a far cry from the boom seen stateside in the same month.
- In June, sales increased in only three of nine sub-sectors, with autos leading the pack. Auto sales were up by a lofty 2.5% month-over-month, extending a string of strong gains, as the normalization of supply chains has allowed for the fulfillment of pent-up demand. Sales at gas stations rose by 0.3%, a modest rise relative to price increases during the month, leaving sales down in volume terms. The only other sub-sector to see higher sales was "miscellaneous store retailers".
- Sales volumes were down in most of the remaining sub-sectors, with categories tied to the housing market (building materials, appliances, home furnishings), and discretionary categories (clothing) showing declines. Food and beverage store sales were down in both volume and nominal terms, but that followed strong gains in the prior two months. Over the second quarter, volumes at food/beverage retailers were up by 6.0% annualized, possibly a reflection of consumers eating at home more rather than at restaurants as households feel the squeeze from high prices and interest rates.

Implications & actions

Re: Economic forecast — Goods consumption looks to have swung from a boost to a drag on growth in the second quarter, leaving business investment as a more important source of growth. Still, Q2 GDP is tracking only slightly below the Bank of Canada's 1.5% forecast. We've pencilled in a final quarter point hike for September, but that's a fairly close call and one that could be impacted if the flash estimate for July GDP looks weak enough.

Re: Markets — Bond yields and the Canadian dollar both fell slightly following today's release, perhaps capturing the weakness in ex-auto sales and the negative revisions to the May data.

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