

Economics

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Canadian retail sales (Apr, May adv): Further evidence of a Q2 stall

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Retail sales (period/period % chg, quarters are annualized % chg)	24:Q3	24:Q4	25:Q1	Feb	Mar	Apr	Apr Y/Y
Total retail sales	5.9	10.0	4.8	-0.5	0.8	0.3	5.0
• Vehicle & parts dealers	18.3	25.2	-4.4	-3.5	5.3	1.9	13.1
• Total ex-vehicle & parts dealers	1.7	4.7	8.7	0.6	-0.8	-0.3	2.1
Total real retail sales	6.0	5.8	1.1	-0.5	0.9	0.5	3.3

Source: Statistics Canada

- Canadian consumers continued to spend in April, but a decline in the May advance estimate for retail sales provides another indication that the economy is heading for a stall in Q2. That renewed consumer caution amid tariff uncertainty and a weakening labour market is likely to persist for a little while yet, and we continue to expect two more 25bp interest rate cuts by the Bank of Canada in the second half of the year to help support a recovery.
- Retail sales edged up by 0.3% in April, with that increase very close to the advance estimate and consensus (+0.4%). Auto sales were once again the main driver of growth, with the near 2% increase following a 5% advance in the prior month. Auto sales now stand 13% higher than a year ago, although some recent buying could reflect households pulling forward purchases ahead of feared tariff-led price increases. We saw a similar increase in the US, which has subsequently faded. Furniture, electronics & appliances and sporting goods stores also saw increases in sales during April.
- Partly offsetting those increases, gasoline sales were the main negative, albeit mainly due to lower prices. Clothing retailers also saw a big decline. Excluding autos and gasoline, sales were 0.1% higher and in volume terms total sales advanced by a solid 0.5%. That followed a 0.9% pop in overall sales volumes in March, although both monthly increases have been largely driven by auto sales. Ex-auto retail volumes were actually down slightly in both March and April and also broadly flat on a year-over-year basis.
- According to supplemental questions, 36% of retailers were impacted by trade tensions, with those impacts including price increases, supply chain issues and shifts in demand.
- The advance estimate for May pointed to 1.1% decline in sales, although this could partly reflect a pull back in auto sales similar to that seen in the US following a couple of months of above-trend purchases.

Implications & actions

Re: Economic forecast — The sluggish trend in ex-auto sales volumes, combined with the advance estimate for a decline in headline sales in May, is evidence that consumer spending is starting to struggle in the face of tariff uncertainty and renewed weakness within the labour market. We continue to expect that the Bank of Canada will need to return to interest rate cuts to help support a recovery, and forecast two 25bp reductions during the second half of the year.

Re: Markets — Canadian bond yields fell and the Canadian dollar depreciated after the release as markets reacted to the disappointing advance estimate for May retail sales.

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