

Economics

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Canadian retail sales (Jul, Aug adv) continue to seesaw

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Retail sales (period/period % chg, quarters are annualized % chg)	24:Q4	25:Q1	25:Q2	May	Jun	Jul	Jul Y/Y
Total retail sales	10.0	4.5	1.2	-1.4	1.6	-0.8	4.0
• Vehicle & parts dealers	25.2	-5.3	7.2	-3.5	0.1	0.2	6.7
• Total ex-vehicle & parts dealers	4.7	8.5	-1.1	-0.5	2.2	-1.2	3.0
Total real retail sales	6.4	1.2	2.1	-1.6	1.6	-0.8	2.7

Source: Statistics Canada

- Canadian retail sales continued to seesaw in July, with the 0.8% drop in sales erasing half of the prior month's gain. That matched the advance estimate and the consensus expectation, but the weakness was more widespread than expected, as ex-auto sales fell by 1.2% (vs. -0.6% consensus). In volume terms, total sales also decreased by 0.8%, leaving the level roughly unchanged since January, as consumers have remained cautious amidst the deterioration in the labour market and trade uncertainty. The advance estimate for August suggested a 1.0% increase in nominal sales, but looking through the monthly volatility still shows a lackluster trend in real spending, supporting the need for another BoC cut in October.
- July's declines were broad based, with eight of nine subsectors falling, and the core sales group (ex. gasoline and vehicles) down by 1.2%, led by a pull back at grocery stores (-2.5%) and clothing stores (-3.2%). Those drops represented a reversal of strength from the prior month's gains. Looking at categories tied to the housing market, home furnishing sales (-0.6%) were lower for the third consecutive month, while building materials (-2.1%) dropped off following two strong months of higher spending, with the former category sitting 3% below year-ago levels in volume terms.
- Autos were the one subsector to record a gain, with a modest 0.2% increase following two weak months, although that only represented a 0.1% increase in volume terms. This follows large increases in auto prices earlier in the year, that could have caused consumers to delay purchases along with tariff uncertainty. The level of inventories of cars relative to the pace of sales is still above pre-Covid norms, suggesting that higher spending on autos ahead wouldn't present a threat to inflation.

Implications & actions

Re: Economic forecast — Looking through the monthly volatility clearly shows a consumer that is remaining cautious, in line with the increase in the unemployment rate and ongoing trade uncertainty. It's likely that the buy Canada movement fades over the winter as domestic travel wanes, which will put further pressure on consumer spending. This suggests that the BoC is likely to trim interest rates again by 25bps in October.

Re: Markets — Bond yields and the Canadian dollar were little changed following today's release, as the weak ex. autos figure for July was negated by a strong August advance estimate.

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