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Canadian retail sales (Mar, Apr adv.): Another sluggish print

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Retail sales (period/period % chg, quarters are annualized % chg)	23:Q3	23:Q4	24:Q1	Jan	Feb	**Mar**	**Mar Y/Y**
Total retail sales	2.5	4.3	-0.9	-0.5	-0.1	-0.2	1.9
• Vehicle & parts dealers	4.5	14.9	-4.7	-2.6	0.4	1.0	5.3
• Total ex-vehicle & parts dealers	1.7	0.7	0.6	0.3	-0.2	-0.6	0.7
Total real retail sales	-1.5	4.2	1.1	0.1	-0.2	-0.4	0.8

Source: Statistics Canada

- Canadian retail sales ended the quarter on a soft note, with total sales declining by 0.2%, a tick worse than the consensus expectation, but matching our forecast. The weakness was widespread, as sales retreated in seven of nine subsectors, with the core group of sales, which excludes gasoline and autos, dropping off by 0.6%. In volume terms, total sales fell by 0.4% in March but were up by 1.1% annualized over the quarter, supported by stronger activity at the turn of the year. The waning of momentum over the quarter reflects consumer caution as mortgages come up for renewal at higher interest rates, and is consistent with the Bank of Canada beginning to trim interest rates in June.
- Leading the decline in March sales were discretionary categories including furniture, home furnishings, electronics, and appliances, as well as clothing retailers. Sales at sporting good and hobby retailers were also weak, while building material receipts were the only category within the core group to show an increase. In volume terms, the weakness was also apparent in those categories that are further below year-ago levels than total sales.
- Auto sales were surprisingly strong, with sales volumes up by 0.8% in contrast to the 8% drop implied by the unit sales data for new cars. Unit sales per capita are still a little below pre-pandemic norms and likely have further room to increase as supply constraints resolve in the months ahead.
- On a per-capita basis, total real sales are 2.3% below year-ago levels. The advance estimate for April sales suggested a 0.7% increase, but that will partly reflect a surge in gasoline prices, with real volumes likely to be up by about half that pace, and essentially only just reversing the March decline.

Implications & actions

Re: Economic forecast — Real goods spending for the quarter showed a meaningful deceleration from Q4. As the Bank of Canada starts to trim interest rates ahead, sales should have a floor under them, but mortgage renewals at higher interest rates relative to pandemic-era lows still suggest lacklustre consumer spending in the quarters ahead, until the unemployment rate starts to come down and the BoC is further into its cutting cycle later in the year.

Re: Markets — There was little market reaction to the slight downside surprise.

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