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Canadian retail sales driven higher in September

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Retail sales (period/period % chg)	23:Q1	23:Q2	23:Q3	July	August	**September**	**Sept. Y/Y**
Total retail sales	2.6	-0.3	2.5	0.4	-0.1	0.6	2.7
• Vehicle & parts dealers	17.3	-1.5	1.8	-1.5	-0.7	1.5	7.1
• Total ex-vehicle & parts dealers	-2.1	0.1	2.7	1.1	0.2	0.2	1.2
Total real retail sales	6.3	-0.3	-2.1	-0.1	-0.6	0.3	1.5

Source: Statistics Canada

- The Canadian consumer perked up at the end of the third quarter, with the 0.6% rise in nominal retail sales well above the consensus estimate for a flat reading. The strength was concentrated in autos and gasoline, as sales elsewhere declined by 0.3%. And while volumes advanced in September, for the third quarter as a whole, sales volumes dropped by 2.1% annualized, compounding the weakness seen in Q2. The momentum seen in September, while possibly extending into October given the advance sales estimate, will likely be temporary given the climb in the unemployment rate that's underway, alongside the renewal of mortgages at higher interest rates that will work to squeeze consumers.
- The 1.5% jump in auto sales followed two consecutive months of declines as the port strike constrained activity, and that left the level of sales below what was seen in Q2. While supply chain normalization has been a boon for auto sales over the past year, we expect tighter financing conditions to weigh on sales ahead as pent-up demand fades, and activity normalizes following the port strike. The increase in gasoline sales was a surprise given lower average gasoline prices over the month, and that reflected higher sales volumes.
- Looking at discretionary core categories, signs of consumer weakness were clear, as sales of clothing, sporting goods, and furniture all declined. The slowdown in the housing market that's underway should also limit sales of furniture more ahead. The core group of sales is up by 1.7% y/y, but is down by 0.9% y/y in per-capita terms.
- The advance estimate for October suggested that sales got off to a solid start in Q4, with a 0.8% rise. However, that could have again been an auto sector story given industry reports of a surge in unit auto sales in that month. Auto sales volumes tend to impact GDP less than ex. auto volumes, as they tend to be lower value added as a percentage of sales than some other categories where margins are higher.

Implications & actions

Re: Economic forecast — The September print suggests that overall GDP in that month will have looked slightly better than the advance estimate, at 0.1% m/m. And while the underlying core group of sales continues to suggest a wilting consumer, solid auto sales may prevent another drop in goods consumption in the final quarter. With the unemployment rate climbing and precautionary savings increasing in anticipation of mortgage renewals, we expect core signals to remain weak, leaving the Bank of Canada on the sidelines until rate cuts likely commence in Q2.

Re: Markets — Bond yields rose slightly and the CAD strengthened a touch on the upside surprise in sales.

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