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Canadian retail sales (Aug); Still a slow burn

by **Andrew Grantham** andrew.grantham@cibc.com

Retail sales (period/period % chg, quarters are annualized % chg)	23:Q4	24:Q1	24:Q2	Jun	Jul	**Aug**	**Aug Y/Y**
Total retail sales	4.3	-1.9	-1.7	-0.3	0.9	0.4	1.4
• Vehicle & parts dealers	14.9	-7.3	-7.3	-1.5	2.3	3.5	6.1
• Total ex-vehicle & parts dealers	0.7	0.2	0.5	0.2	0.3	-0.7	-0.4
Total real retail sales	5.4	-1.8	-3.2	-0.2	0.8	0.7	1.5

Source: Statistics Canada

- Interest rate cuts have yet to light a fire under Canadian retail sales. While headline sales posted a further solid headline gain in August, the advance was largely driven by the often volatile auto sector, and core measures looked much less impressive. With consumer spending remaining patchy and still weak in per-capita terms, further interest rate cuts will likely be needed to bring a sustained acceleration.
- The 0.4% headline gain was close to the consensus forecast (+0.5%), and followed a 0.9% advance in the prior month. However, August sales were flattered by a 3.5% gain in autos, and excluding that category sales actually fell by 0.7% (consensus +0.4%). Core retail sales (ex autos and gasoline) fell by 0.4% which marked the first decline in three months on that breakdown. Food & beverage, furniture and electronics stores saw declines on the month.
- Total sales were up by 0.7% in volume terms and advance information for September suggested a headline nominal gain of 0.4%. That may look a little better in real terms given further downward pressure on prices in September within the CPI report. For Q3 as a whole, real retail sales will likely post a healthy advance of between 2.5%-3.0% annualized, although that wouldn't fully make up for the decline in the prior quarter. Through the ups and downs of monthly and quarterly figures, the 1.5% year-over-year increase in retail spending remains modest and represents a decline in per capita terms.
- Released alongside today's retail sales report, the advance data for manufacturing shipments in September pointed to a 0.8% decline on the month. Petroleum products drove at least part of the reduction, and could be linked to lower prices, so in real terms the data should be somewhat better than the headline suggests.

Implications & actions

Re: Economic forecast — Even though retail sales returned to growth in Q3, spending remains decidedly patchy and soft in per capita terms. We expect that further interest rate cuts will be needed to bring a sustained acceleration in spending - something that will become more evident in the second half of 2025. With inventory levels in the retail space currently elevated relative to sales, there is plenty of room for demand to improve before driving inflationary concerns.

Re: Markets — There was little market reaction due to the mixed nature of the data.