

Economics

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March 24, 2023

Canadian retail (Jan, Feb adv): An impressive start to the year

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Retail sales (period/period % chg)	22:Q2 ¹	22:Q3 ¹	22:Q4 ¹	Nov	Dec	Jan	Jan Y/Y
Total retail sales	12.0	-3.0	3.8	-0.2	0.0	1.4	5.0
• Vehicle & parts dealers	-7.3	5.9	9.5	0.7	2.2	3.0	2.5
• Total ex-vehicle & parts dealers	19.4	-5.9	1.9	-0.5	-0.7	0.9	5.9
Total real retail sales	2.8	-2.8	0.5	-0.5	0.7	1.5	1.9

Source: Statistics Canada

- Canadian retail sales started the year with a bang, increasing 1.4% in January, double the pace expected by consensus and given in the advance estimate. The monthly gain was driven by sales of motor vehicles and parts and gasoline. Overall, retail sales increased in 7 of 9 subsectors, and another healthy gain in volume terms suggests consumers continue to be resilient. However, while strong, this release is unlikely to play a major role in the Bank of Canada's decision next month.
- Core retail sales (ex-auto and gasoline) rose by 0.5% in January, and total sales in volume terms increased by an impressive 1.5%. The advance in core retail sales was led by gains at food and beverage retailers (+0.8%), despite a small decline for grocery stores and supermarkets. Clothing stores also recorded a healthy gain (+2.2%). Those gains were partially offset by declines in spending on some discretionary goods, such as furniture, electronics and appliance retailers (-1.0%) and sporting goods and miscellaneous retailers (-1.2%).
- The increase in core retail sales was compounded by the sixth consecutive monthly increase in sales of motor vehicles and parts, which jumped 3.0%. The increase was once again led by sales of new cars, as the improvement in supply chains and pent-up demand for vehicles provide a boost to the sector. Meanwhile, after declining in December, sales at gasoline stations rebounded by 2.9%. This however reflected the jump in gasoline prices in January, as sales declined 0.6% in volume terms.
- On a provincial basis, sales were up in all provinces in January. Ontario and Quebec were the only two provinces with sub 1% growth, with gains of 0.7% and 0.6%, respectively.
- The advance estimate for February suggests that there will be at least some payback, with a decline of 0.6%. Furthermore, advance estimates for February manufacturing and wholesale sales, which were released separately this morning, suggest broader weakness in that month. These estimates suggest that manufacturing sales fell 2.8% in February, while wholesale sales declined 1.6%. Taken all together, these releases still suggest that the economy, and the consumer, were holding up better than expected to start the year and that first quarter growth may exceed earlier expectations.

Implications & actions

Re: Economic forecast — Retail sales in volume terms posted a healthy gain in January, and while advance estimates for February, including for manufacturing and wholesale sales, suggest at least some payback, this morning's data

¹ Annualized.

indicate slightly stronger GDP growth in the first quarter than previously expected. However, with savings no longer as bloated as they once were, particularly in inflation-adjusted terms, household consumption should still see some modest declines later in 2023 and we continue to expect GDP to stall in the coming quarters. Overall, this morning's releases are unlikely to prompt the Bank of Canada to come off the sidelines in April.

Re: Markets — The action in the market continues to be driven by the banking crisis and the fallout from the Fed rate decision. Bond yields were lower prior to the release and while they temporarily slightly rebounded, as of 9:30 they had resumed their decline. The release also did not have any large impact on the CAD, which had already depreciated since yesterday.

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