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Economics

# ECONOMIC FLASH!

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## Canadian consumers wilting under higher interest rates

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| Retail sales (period/period % chg) | 22:Q4 | 23:Q1 | 23:Q2 | June | Jul | Aug | Aug Y/Y |
|---|---|---|---|---|---|---|---|
| Total retail sales | 3.8 | 2.6 | -0.2 | 0.1 | 0.4 | -0.1 | 1.6 |
| • Vehicle & parts dealers | 9.5 | 17.3 | -1.6 | 2.4 | -1.5 | -0.9 | 5.5 |
| • Total ex-vehicle & parts dealers | 1.9 | -2.1 | 0.3 | -0.7 | 1.1 | 0.1 | 0.3 |
| Total real retail sales | 3.6 | 6.4 | -0.1 | -0.2 | -0.2 | -0.7 | 1.1 |

Source: Statistics Canada

- Canadian consumer strength continued to wane in August, with retail sales declining by 0.1%. That was in line with the consensus expectation, and reflected lower sales in six of nine subsectors. While auto sales fell sharply, ex. auto and gasoline sales still dropped off by 0.3%, and total retail sales volumes were down by 0.7%. While 12% of retailers reported that the port strikes still impacted business in August, the advance estimate for September didn't include any signs of a rebound, with sales seemingly flat in that month. This suggests that consumer spending is getting weaker for the second quarter in a row, with domestic demand under pressure from higher interest rates, suggesting that the Bank of Canada likely won't need to take interest rates any higher from here.
- Sales volumes were down almost across the board in subsectors, with the only exceptions being health stores (+0.8% m/m) and autos (+0.1% m/m). Autos was one sector that was disproportionately hit by port strike impacts in July, and that could have continued to weigh on sales in early August, but we suspect that higher interest rates are also limiting demand. In terms of the monthly GDP contribution for the retail industry in August, the drop in ex-auto sales volumes can have more of a negative impact than a rise in auto volumes, as the latter tend to be lower value added as a percentage of sales than some other categories where margins are higher.
- Discretionary subsectors and those tied to the housing market saw weaker sales volumes, something that we expect to continue as the labour market softens and mortgage renewals squeeze discretionary consumption. Online shopping was also a weak spot in the report, as online sales dropped off by 2.0%, following a surge in the prior month. While this leaves total retail sales volumes 1.2% above year-ago levels, that largely reflects the boost to auto sales from supply chain normalization, with sales volumes outside of autos up by only 0.2% y/y. Moreover, this still represents a decline in per-capita terms over the past year.

## Implications & actions

**Re: Economic forecast** — This report is another signpost that consumer strength is continuing to fade, with the advance estimate for September also implying a weak lead-in to the fourth quarter. With domestic demand clearly responding to higher interest rates, the BoC likely won't need to take rates any higher from here.

**Re: Markets** — Bond yields fell slightly as this report reduces the odds of further BoC tightening, something that markets haven't fully ruled out yet.

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