

## Economics

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## Canadian retail (Mar, Apr adv): Slight cracks starting to show

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Retail sales (period/period % chg)	22:Q3	22:Q4	23:Q1	Jan	Feb	Mar	Mar Y/Y
Total retail sales	-3.0	3.8	3.0	1.4	-0.2	-1.4	2.4
• Vehicle & parts dealers	5.9	9.5	16.5	3.0	0.9	-4.4	8.3
• Total ex-vehicle & parts dealers	-5.9	1.9	-1.4	0.8	-0.7	-0.3	0.5
Total real retail sales	-2.6	1.4	4.9	1.6	-0.6	-1.0	0.9

Source: Statistics Canada

- While March's decline in retail sales was no worse than anticipated, and was driven largely by volatility in auto and gasoline sales, slight cracks are starting to show within Canadian consumer spending. The 0.3% advance in core retail sales (excluding autos and gasoline) was admittedly much better than the headline drop of 1.4%, but would still represent little progress in inflation-adjusted terms. The same can be said about the 0.2% advance estimate for total retail sales in April, particularly with gasoline prices rebounding during the month.
- The 4.4% drop in auto & parts sales during March was the first decline in eight months, but previous growth in that area as supply issues faded is still one of the primary drivers of overall retail sales during Q1. While total retail sales were up by 3% annualized in the first quarter (4.9% in volume terms), ex-auto sales saw a decline of 1.4% (+0.7% in volume terms). The 3.9% decline in gasoline sales during March was mainly the result of lower prices, although volumes were also down by more than 1%.
- Within the 0.3% advance in core retail sales (excluding gasoline and autos) there were a number of moving parts. Building material sales rose by 1.6%, which represented the second increase in three months after declines during much of H2 2022. In contrast, clothing sales fell by 1.2% following a couple of months of strong growth during January and February.
- In volume terms, overall retail sales fell by 1.0% in March, and combined with the decline in February as well has now reversed the sharp gain seen in January. On a year-over-year basis, retail sales volumes are up only 0.9% and are down 0.8% excluding autos.
- Sales fell in each province with the exception of BC during March, although the increase in that particular part of the country followed a fairly sharp decline in the prior month. Ontario and New Brunswick saw some of the steepest declines in sales during March, albeit mostly driven by volatility in autos.

## Implications & actions

**Re: Economic forecast** — Although spending on services is likely to have held up better, a softening trend in retail sales volumes towards the end of Q1 is a sign that perhaps the Bank of Canada simply needs more patience, rather than more interest rate hikes, in its quest to bring inflation back down to target. That said, if the labour market doesn't start to loosen, a further rate hike can't be ruled out, and the cuts that we are forecasting in 2024 could come slightly later than we were previously forecasting.

**Re: Markets** — Bond yields fell immediately after the release, but soon recovered to be slightly higher on the day as investors realised that the details of today's retail sales report were stronger than the headline decline.

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