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Canadian retail sales (Jun, Jul adv); A surge and a stumble

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Retail sales (period/period % chg, quarters are annualized % chg)	25:Q4	26:Q1	26:Q2	Apr	May	**Jun**	**Jun Y/Y**
Total retail sales	1.6	9.0	9.1	0.5	1.1	**0.6**	**5.2**
• Vehicle & parts dealers	-4.4	6.7	11.0	1.6	0.7	**1.0**	**3.7**
• Total ex-vehicle & parts dealers	3.9	9.9	8.4	0.1	1.2	**0.5**	**5.8**
Total real retail sales	-2.3	6.6	1.8	-0.4	0.6	**1.5**	**2.1**

Source: Statistics Canada

- Canadian retail sales surged at the end of the second quarter, but appear to have stumbled slightly to start Q3. However, through the monthly volatility the underlying trend still appears to be gradually upwards and that improvement should continue into next year, supported by expanded household benefits and an improving labour market, as well as hopefully in 2027 by an easing in inflationary pressures linked to gasoline prices.
- Headline sales increased by 0.6% in June, which was a couple of ticks better than the advance estimate and consensus forecast (+0.4%). With gasoline prices falling during the month, core sales (ex autos and gas) were an even stronger +1.2%, while overall sales volumes advanced by 1.5% on the month.
- General merchandise and clothing stores drove the increase, rising by 2.7% and 3.1% respectively and driven solely by higher volumes rather than prices. A small decline in food & beverage stores (-0.4%) acted as only a partial offset.
- Auto sales rose by 1.0% in June, with that increase the third in successive months and taking the value of sales close to the peak reached in December 2024. Sales at gas stations declined, albeit solely due to lower prices as sales were higher in volume terms.
- For Q2 as a whole, sales volumes rose by an annualized 1.8%. While that's a deceleration from the first quarter's torrid pace, the second quarter increase was solid, particularly in light of the rise in gasoline prices during the quarter which will have cut into the ability of households to make other purchases.
- However, the strength in June and Q2 as a whole doesn't appear to have been maintained, with advance data for July pointing to a 0.8% decline. Due to a partial rebound in gasoline prices, that result will likely look even weaker in volume terms.

Implications & actions

Re: Economic forecast — Monthly retail sales data can be very volatile, and even after factoring in July's decline the underlying trend in sales volumes appears to be positive. Looking ahead to 2027, there are reasons to be cautiously optimistic regarding the consumer spending outlook, including the recent improvement seen in the labour market, expanded benefits for lower income households and a reduced drag on disposable incomes from mortgage refinances.

Re: Markets — Markets saw little reaction to today's somewhat mixed retail sales data release.

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