

## Economics

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## Canadian retail (Nov, Dec adv): Taking the good with the bad

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Retail sales (period/period % chg)	22:Q1 <sup>1</sup>	22:Q2 <sup>1</sup>	22:Q3 <sup>1</sup>	Sep	Oct	Nov	Nov Y/Y
Total retail sales	13.8	11.7	-4.2	-0.6	1.3	-0.1	5.2
• Vehicle & parts dealers	2.7	-11.5	5.2	-0.1	0.3	1.4	1.5
• Total ex-vehicle & parts dealers	18.2	21.0	-7.2	-0.8	1.6	-0.6	6.5
Total real retail sales	5.7	1.9	-4.0	-0.4	0.1	-0.4	-0.2

Source: Statistics Canada

- Canadian retail sales fell by 0.1% in November, which was slightly better than the advance estimate and consensus expectation for a 0.5% decline. However, some of the detail wasn't as encouraging, and the underlying trend still shows retail sales moving broadly sideways in volume terms.
- Core retail sales (ex-auto and gasoline) fell by 1.1% in November, and total sales in volume terms declined by 0.4%. While the drop in core retail sales was led by food & beverage stores (-1.6%), there were also large declines in more discretionary areas such as building materials & garden equipment and general merchandise.
- The decline in core retail sales was offset at the headline level by a 1.4% increase in motor vehicle & parts, and a 2.2% increase at gas stations. The rise in gasoline sales reflected an increase in volumes during the month, as prices were down compared with October.
- Compared with a year ago, while nominal retail sales are up by 5.2%, that purely reflects price inflation during that period. In volume terms, sales were essentially unchanged (-0.2%) relative to the same period of 2021.
- On a provincial basis, sales were lower in eight, which included declines in Quebec, New Brunswick and Newfoundland & Labrador. Partly offsetting those declines was a rise in sales in BC, led by motor vehicles & parts.
- On a more positive note, the advance estimate for December showed a gain in overall sales of 0.5%, which should look even better in volume terms given the sharp decline in gasoline prices that was seen during the month. Overall then, the two months together suggest a bumpy ride still for Canadian retailers, but it is at least a ride that is going broadly sideways still rather than downwards.

## Implications & actions

**Re: Economic forecast** — Retail sales in volume terms aren't rising, but they are not falling either, suggesting that accumulated savings during the pandemic may be protecting consumption to a certain extent from the impact of higher interest rates. However, with savings no longer as bloated as they once were, particularly in inflation-adjusted terms, and with rates having been raised further, household consumption could still see some modest declines in the first half of 2023. We continue to see one final 25bp hike from the Bank of Canada next week.

<sup>1</sup> Annualized.

**Re: Markets** — Bond yields rose slightly after the release, as the better than expected headline readings for November and December reaffirmed investor belief that the Bank of Canada will hike interest rates by a further 25bp next week.

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