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Canadian retail sales (June, July adv.): Shifting into a lower gear

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Retail sales (period/period % chg, quarters are annualized % chg)	23:Q4	24:Q1	24:Q2	Apr	May	**Jun**	**Jun Y/Y**
Total retail sales	4.3	-1.9	-1.8	0.5	-0.8	-0.3	0.2
• Vehicle & parts dealers	14.9	-7.3	-9.1	-2.3	0.2	-2.1	-2.7
• Total ex-vehicle & parts dealers	0.7	0.2	1.0	1.6	-1.2	0.3	1.3
Total real retail sales	5.4	0.5	-1.0	0.3	-0.8	0.1	0.8

Source: Statistics Canada

- Canadian retail sales shifted into a lower gear in June, and you can't just blame a disruption in vehicle sales for what was a lacklustre second quarter overall. Total sales fell by 0.3% in June, matching the consensus expectation, with a software glitch at car dealerships holding back vehicle sales, which led the decline. Real sales volumes posted a modest 0.1% increase in June, but for the second quarter as a whole dropped off by 1% annualized, showing that consumers are continuing to struggle as mortgages come up for renewal and the labour market weakens. That will leave the BoC on track to cut interest rates at each of the remaining three meetings this year.
- Sales were down in four of nine subsectors, with the discretionary category of sporting goods/hobby/miscellaneous plummeting (-0.8%), and gas station sales falling by 0.5% on lower prices at the pump. Sales at housing-related retailers were weak, and both building material and furniture sales down sharply from year ago levels, at -1.5% and -3.4%, respectively. The core group of retail sales, which excludes autos and gasoline, showed a respectable 0.4% increase as grocery store sales led the charge (1.8%).
- Sales continue to look weak in the context of population growth, with per-capita volumes sitting 2.6% below year-ago levels. The advance estimate for a 0.6% increase in July sales will have likely been fully accounted for by a bounce back in auto sales as the software issue at dealerships was resolved, and higher goods prices, including for gasoline.

Implications & actions

Re: Economic forecast — Retail sales have been soft for a prolonged period of time, and looking beyond the volatility caused by the software issue at auto dealerships shows that trend remains entrenched. Spending on services likely still drove modest consumption growth in the second quarter, but with the unemployment rate up sharply, the Bank of Canada will need to ease interest rates at each of the next three meetings this year, with more to come in 2025, in order to prevent a broader slowdown in the economy.

Re: Markets — There was little market reaction to the data, given the headline matched expectations. Markets are already expecting a dose of interest rate relief from the BoC in line with our forecast over the rest of the year.

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