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Canadian retail sales seesaw in November

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Retail sales (period/period % chg)	23:Q1	23:Q2	23:Q3	Sep	Oct	Nov	Nov Y/Y
Total retail sales	2.6	-0.3	2.4	0.5	0.5	-0.2	1.8
• Vehicle & parts dealers	17.3	-1.5	2.5	1.7	0.7	0.5	7.0
• Total ex-vehicle & parts dealers	-2.1	0.1	2.4	0.1	0.4	-0.5	0.1
Total real retail sales	6.3	0.3	-1.1	0.4	1.0	-0.2	2.7

Source: Statistics Canada

- Canadian retail sales dropped off in November after a bounce at the start of the quarter, with both nominal and volume sales sinking by 0.2%. That reflected weakness in key discretionary areas, including online shopping and general merchandise stores, along with grocery stores. While consumption will still be a growth contributor in the fourth quarter, that owes almost entirely to the strong start in October. Spending still looks worse in per-capita terms, as it sat 1.0% below year-ago levels as of November. Although the advance data for December suggested a 0.8% increase in nominal sales, that will partly reflect higher prices, and we expect any strength to be fleeting given the impact of ongoing mortgage renewals and the deterioration in the labour market.
- The weakness in November sales was accounted for by a drop in four of nine categories. The decrease in grocery store sales wasn't a prices story, but could possibly reflect consumers substituting towards lower-priced brands at stores, as grocery store prices are generally still rising uncomfortably fast. On a provincial basis, sales were down in five provinces, namely in Quebec and Atlantic provinces. Ontario and BC, the two provinces that are most exposed to higher interest rates due to elevated debt-to-income ratios managed to post increases. Relative to year-ago levels, however, they aren't in a better position than other provinces.
- Sales in categories tied to housing market activity, namely furniture and building materials, showed modest growth in monthly volume terms, but are down by 4.4% and 1.1% in y/y terms. Supply chain normalization and the impact on the auto industry has been a theme for the year, and that was apparent in the November data, with sales volumes up by 0.3% m/m and 4.2% y/y.

Implications & actions

Re: Economic forecast — After consumer spending stagnated in the third quarter, it looks to have been a positive growth contributor in the fourth quarter. We don't expect the momentum to last, however, as survey evidence shows that consumers are becoming increasingly worried about job prospects and mortgage renewals, which will weigh on spending in early 2024.

Re: Markets — There was little market reaction to the data, as the jump in the advance December estimate offset the downside surprise to the November data.

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