

Economics

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Canadian retail (May, Jun adv): Sluggish even before rate hikes

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Retail sales (period/period % chg)	22:Q3	22:Q4	23:Q1	Mar	Apr	May	May Y/Y
Total retail sales	-3.0	3.8	2.8	-1.4	1.0	0.2	0.5
• Vehicle & parts dealers	5.9	9.5	16.9	-4.3	0.6	0.8	6.3
• Total ex-vehicle & parts dealers	-5.9	1.9	-1.8	-0.4	1.2	0.0	-1.4
Total real retail sales	-0.8	3.6	5.4	-1.0	0.3	0.1	1.3

Source: Statistics Canada

- With retail sales seeing little growth in May, and the advance estimate suggesting that the sideways trend continued into June, today's data point to sluggishness in Canadian consumer spending even before the Bank of Canada restarted its rate hiking cycle.
- Canadian retail sales rose by a modest 0.2% in May, slightly below the 0.5% consensus forecast albeit following a strong 1.0% increase in the prior month. In volume terms, overall sales edged up by 0.1% on the month and were 1.3% higher on a year-over-year basis. Given strong population growth seen over the past 12 months, this year-over-year growth rate would still represent a decline in per capita terms.
- Auto sales were the primary driver of growth during the month, while ex-auto sales were unchanged relative to April. Food & beverage stores also saw a further increase in sales during the month, reflecting not just prices but also a gain in volumes. After declining throughout much of 2021 and 2022 as the economy reopened and people started to eat out more often again, the volume of sales at grocers has been on the rise again this year. That could reflect the strong population growth we have seen, but could also be a sign that some consumers are making cut backs and choosing to eat at home more often relative to eating out.
- Growth in food & beverage stores was offset by declines in general merchandise, building supplies and clothing. In each instance the declines in sales during May at least partly offset increases in the prior month.
- Accompanying the slightly disappointing May increase, the advance estimate for June was also on the soft side, with nominal sales expected to be flat on the month.
- Assuming that retail sales volumes were broadly unchanged in June, goods consumption would be down roughly 2% annualized in Q2 relative to the first quarter and represent a modest drag on overall GDP. While that partly reflects a dip in auto sales following a surge in Q4 and early Q1, ex-auto retail sales volumes haven't been particularly strong either particularly in per capita terms.

Implications & actions

Re: Economic forecast — While overall GDP in Q2 is still tracking close to the 1.5% Bank of Canada MPR forecast, today's data suggest that consumer spending likely wasn't a significant driver of that growth, even accounting for growth in services spending. Industry data showing strength in areas such as manufacturing and wholesale suggest that inventory accumulation or business investment may be more significant contributors, which wouldn't be bad news from an inflation point of view.

Re: Markets — Bond yields and the Canadian dollar both fell following today's release, due to the weaker than expected May print and soft advance estimate for June.

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