

Economics

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Canadian retail (Sep, Oct adv): A difficult Q3, but solid start to Q4

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Retail sales (period/period % chg)	22:Q1 ¹	22:Q2 ¹	22:Q3 ¹	Jul	Aug	Sep	Sep Y/Y
Total retail sales	13.8	11.7	-4.0	-2.3	0.4	-0.5	6.9
• Vehicle & parts dealers	2.7	-11.5	4.4	-1.5	0.3	0.0	2.4
• Total ex-vehicle & parts dealers	18.2	21.0	-6.7	-2.6	0.5	-0.7	8.5
Total real retail sales	5.7	2.2	-5.4	-2.2	0.8	-0.1	1.2

Source: Statistics Canada

- Canadian retail sales fell by 0.5% in September, matching consensus expectations and the advance estimate. However, with the biggest decline coming at gasoline stations and linked to lower prices during the month, sales fared a little better in volume terms (-0.1%). Moreover, the advance estimate for October shows a healthy bounce back of 1.5%, suggesting that consumer spending on goods is still fairly robust despite the challenges facing households from inflationary pressures and rising interest rates.
- Sales at gasoline stations fell by 2.5% on the month, led solely by a further drop in prices as the volume of sales rose by a robust 4.2%. Auto sales were broadly flat in both value and volume terms, although we are starting to see some encouraging signs from production and US sales data that some of the supply issues that the sector has faced are starting to ease. As such, this area could be a driver of growth in the future.
- Excluding autos and gasoline, core retail sales fell 0.7% in September to finish what has been a challenging quarter for sales on that breakdown (-6.7% annualized in nominal terms). Sales at food & beverage stores fell 1.3% in September, and with prices up on the month that reflected an even larger 2.2% drop in volume terms. In volume terms, sales at these stores have now fallen slightly below their pre-pandemic (Feb 2020) level for the first time.
- Building material and supplies also saw a drop in sales on the month. However, the volume of sales is still elevated relative to its pre-pandemic trend, suggesting this area could have further to fall as renovation activity continues to slow under the pressure of higher interest rates.
- Partly offsetting those declines was a healthy gain in clothing, and a slight rebound in furniture sales following a general downtrend in that area earlier in the year.
- For the third quarter as a whole, retail sales volumes fell at a 5.4% annualized rate, although with spending on services continuing to recover, consumer spending as a whole would still have been a positive contributor to Q3 GDP.
- Released alongside the retail sales report, advance estimates for October wholesale trade (+1.3%) and manufacturing (+2.0%) added to the positive retail figure for that month. While all of these numbers will look a little less impressive in real terms, they suggest decent economic momentum to start the fourth quarter.

¹ Annualized.

Implications & actions

Re: Economic forecast — The third quarter may have represented a modest giveback of prior strength in terms of retail sales volumes, but with spending on services continuing to recover the consumer is still expected to have been a positive contributor to overall GDP growth in Q3. The advance estimates for October retail, wholesale and manufacturing suggest that the fourth quarter has started with a little more momentum than we previously anticipated, and placing some upside pressure on ours and the Bank of Canada's GDP forecast (+0.5% annualized) for Q4. However, it is early days, and the impact of past interest rate hikes on consumer spending will only grow in the coming months and quarters.

Re: Markets — Bond yields and the Canadian dollar were both down after the release, albeit only marginally.

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