Canadians apparently voted not to open their wallets in August, with retail sales data showing an unexpected decline for the month. That said, there was an upward revision to the prior month’s data and total sales in August were only dragged lower by prices, as sales in volume terms actually showed a healthy rise. That should both limit market reaction to today’s data and keep monthly GDP forecasts tracking a firm growth reading for the month.

Headline retail sales showed a slight contraction of 0.1%, but excluding a modest gain in autos, retailing declined 0.2%. Weakness was spread across roughly half of the subsectors, although none were seen plunging during the month. The fall in gas prices, which had been expected to show up in a more material drop in filling station receipts, was largely offset by a notable increase in gasoline volumes, leaving nominal sales for that category down only 0.4%. That’s a development that could have been influenced by a bit more summer driving than usual, and could have reversed in September.

Food and beverage sales showed the sharpest decline, dropping 0.8%, and are actually down 0.3% over the past year. That weakness comes as food prices have been rising. Food and beverage volumes are down 3.4% over the past year, largely attributable to a decline in grocery store sales. That’s potentially due to a migration toward online food retailers, which could be being captured in another sub-category, and away from traditional in-store grocery sales.

There were, however, a few positives to provide an offset to the headline miss. In volume terms, retail sales were up a respectable 0.2%. That’s close enough to what we had penciled in to keep monthly GDP for August tracking growth of 0.2-0.3%.

Retail sales for July were also revised up a couple of ticks to now show a gain of 0.6%, and the revision to volumes for that month looked even better, moving from a flat reading to now showing an increase of 0.3%. After the initial release of retail sales data for July, real sales had shown no growth over the prior 12 months. Now, with August data in hand and a revision to the prior month, retail sales are up 0.5% over the past year. That’s not exactly scorching hot, but each of the past
three months have now shown healthy sales growth in volumes, and assuming that trend continues, real sales are likely to have gained roughly 2% annualized in Q3.

Implications & Actions

Re: Economic Forecast — Today’s data were stronger than the headline miss would suggest, and will keep monthly GDP on track for a healthy gain in August. As a result, there’s no reason for the Bank of Canada to signal anything other than a neutral stance in next week’s announcement.

Re: Markets — Yields have fallen, but that appears to have coincided with a move in other sovereign bonds on some Brexit-related news.