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Economic Flash!

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Canadian Shoppers in No Mood to Spend Recent Gains

	18:Q1*	18:Q2*	18:Q3*	Sep	Oct	**Nov**	**Nov Y/Y**
Total Retail Sales	-1.9	4.4	2.9	0.0	0.2	**-0.9**	**0.5**
Vehicle & Parts Dealers	-7.2	2.0	0.1	0.4	1.2	**-1.8**	**2.2**
Total ex Vehicle & Parts Dealers	0.1	5.3	4.0	-0.1	-0.2	**-0.6**	**-0.1**
Total Real Retail Sales	-4.6	3.7	1.0	0.3	0.0	**-0.4**	**-0.2**

** annualized*

- Households were in no mood to spend the gains from increasing job totals nor the savings from falling gasoline prices during the month of November. Cautious consumers add to the list of challenges facing the economy, which are headlined by the recent decline in oil production. While the latter will be temporary, slower growth in consumption has been one of the main reasons we don't see the Bank of Canada as being able to raise rates much higher than current levels.
- Headline sales plunged 0.9% in November on the back of a decline in auto sales and falling gasoline prices. But, even outside of those two volatile components, sales were only up a meagre 0.2%. That's somewhat surprising even aside from the gains in incomes and savings on gasoline costs since there has been a trend toward more holiday shopping in November rather than December. The latest reading could be a sign that statisticians are now appropriately adjusting for the new seasonal patterns or it could be a harbinger of a weak December, signaling a slow start to holiday spending. Overall, sales were down in six of 11 categories, which represent 75% of total retail sales.
- The broad-based weakness was seen in volumes too, which fell 0.4%. Real retail sales are now 0.2% lower than they were a year ago, suggesting that households are taking a more cautious approach to spending. In fact, the trend in sales volumes has been sideways since mid-2017, around the time of the Bank of Canada's first rate hike of this cycle. The bite from higher interest rates continues to work through the economy. As changes in monetary policy work with a lag, we have yet to even see the full effects of past interest rate hikes. Expect that to continue to restrain spending on the most interest rate sensitive items such as autos, appliances, building materials and home furnishings which have already seen some of the most dramatic slowdowns in growth among retail sales categories.
- Still, some of the weakness in November could be attributable to the warmer-than-usual weather seen during the month. Automotive parts, accessories and tire stores saw a dramatic fall off in sales, which could be chalked up to fewer people putting winter tires on their cars. Similarly,

clothing stores may also have been affected by the reduced demand for warm winter-wear. If that's true, there could be a rebound in subsequent months as temperatures dipped lower.

Implications & Actions

Re: Economic Forecast — The less than inspiring retail sales figures combined with yesterday's downbeat readings on the manufacturing and wholesaling sectors has us now tracking a decline in GDP for November. That has lowered our Q4 forecast down to a more modest 1% gain, further reinforcing our expectation that the Bank of Canada will stay on the sidelines for the first half of this year, and then only nudge rates up once more before taking another extended pause.

Re: Markets — The reading was slightly weaker than expected, and contributed to a selloff in the loonie and falling bond yields.