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Canadian retail sales volumes off to a soft start in Q3

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Retail sales (period/period % chg)	22:Q4	23:Q1	23:Q2	May	Jun	Jul	Jul Y/Y
Total retail sales	3.8	2.6	-0.1	0.1	0.1	0.3	2.0
• Vehicle & parts dealers	9.5	17.3	-1.1	1.1	2.4	-1.6	6.7
• Total ex-vehicle & parts dealers	1.9	-2.1	0.2	-0.2	-0.7	1.0	0.4
Total real retail sales	3.6	5.1	-3.3	-0.1	-0.2	-0.2	1.7

Source: Statistics Canada

- Although nominal retail sales gained momentum in Canada in July, showing a 0.3% monthly increase, the good news ended there, as sales were down by 0.2% in volume terms. It's possible that the decrease in the advance August reading, which suggested a 0.3% drop in that month, could have been impacted by wildfires, but even when allowing for a rebound in September, real retail sales look to be down 2.5-3.5% annualized in the third quarter, the second consecutive quarter of weakness that suggests consumer spending will be soft in the GDP numbers for Q3. While the Bank of Canada will have to assess how much of that was due to port strikes and wildfires, it's in line with our view that the economy is soft enough for the BoC to stay on hold.
- In July, nominal sales increased in seven out of nine sub-sectors, with spending more broad-based than what was seen in the prior month. The drop in auto sales was the first seen in four months, with Statistics Canada suggesting that the BC port strike had an impact on sales, and leaving ex. auto sales volumes up by 0.8% on the month. That follows a string of strong gains for auto dealers, as the normalization of supply chains in prior months had allowed for the fulfillment of pent-up demand. The only other two categories to show lower sales volumes during the month were building materials and gasoline. Note that, in terms of the monthly GDP contribution for the retail industry in July, gains in ex-auto sales volumes can have more of a positive impact than a drop in auto volumes, as the latter tend to have lower value added as a percentage of sales than some other categories where margins are higher.
- The increase in spending at grocery stores could be a sign that households opted to dine out less, as higher interest rates and prices weighed. That casts doubt on the notion of services consumption providing an offset to weak goods consumption at the start of the third quarter. While sales volumes at furniture retailers increased despite the decline in house sales volumes, they were 3.4% below year-ago levels.

Implications & actions

Re: Economic forecast — Overall, this report is a signpost that consumer strength continued to wane in the third quarter, and continues to suggest that the Q1 strength in the consumer was a flash in the pan. We expect the unemployment rate to rise further ahead, and combined with the impact of mortgage renewals at higher interest rates, that will add pressure to consumption, likely leaving the BoC on hold for the rest of this year.

Re: Markets — There was little market reaction to today's data as it extended the narrative of a weak underlying consumer when looking at overall sales volumes.

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