

## ECONOMIC NEWS

# Canada: Rate Hikes to Hold Back Holiday Cheer

By Randall Bartlett, Senior Director of Canadian Economics

### HIGHLIGHTS

- ▶ Retail sales rose 1.4% in October, in line with consensus expectations and Statistics Canada's flash estimate. The advance in the month was entirely due to price gains, with retail sales volumes flat on the month.
- ▶ Sales were up in 6 of 11 subsectors, led by higher purchases at gas stations (6.8%) and food and beverage stores (2.2%), the former in large part due to higher oil prices.
- ▶ At the same time, core retail sales – purchases excluding gas stations and motor vehicle and parts dealers – were up a still solid 0.9% in October.
- ▶ With nearly half of Statistics Canada's survey responses received so far, the flash estimate for November is for a 0.5% contraction. This despite a solid increase in auto sales expected for the second consecutive month.

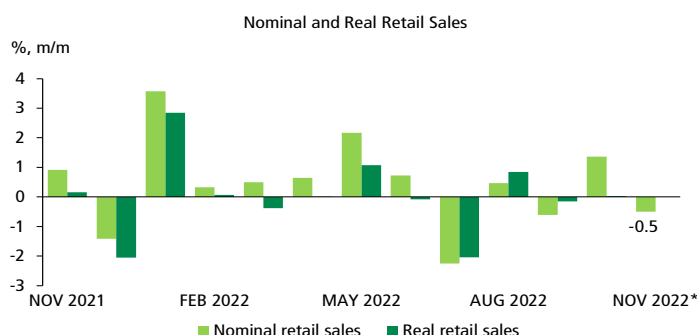
### COMMENTS

There is no doubt that the headline retail print for October was solid, but don't be fooled. This was largely a story of a short-lived rise in the price at the pumps, higher prices at grocery stores, and the long-delayed delivery of motor vehicles. Few of these tailwinds to nominal retail sales continued into November, as highlighted by the retreat in Statistics Canada's flash estimate for the month.

But more top of mind for Canadians is what will happen in the 2022 holiday season. There are risks to both the upside (first holiday post-COVID, government transfers, higher savings, strong labour market, etc.) and downside (high inflation, rising mortgage costs, etc.) relative to a typical December. While data is limited for December so far, high-frequency indicators, such as restaurant activity, suggests the post-pandemic boom in discretionary spending is fading fast.

### GRAPH

**Retail sales momentum is fading just in time for the holidays**



\*Statistics Canada's flash estimate

Sources: Statistics Canada and Desjardins Economic Studies

### IMPLICATIONS

While October retail sales were a bit of a blip, the November number lines up more closely with other indicators that point to fading momentum in the Canadian economy. This should be good news for the Bank of Canada as it means aggressive interest rate hikes are having their desired effect. However, the bigger question is: Will the softening in the economy be enough to keep the Bank on the sidelines in January? As of right now, we think it will be. But given the long delays in Canadian economic data releases, we won't know definitively until February whether or not the [Governor stole Christmas](#).