

ECONOMIC NEWS

Retail sales are holding up ... for now

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Retail sales rose 0.5% in December, in line with consensus expectations and Statistics Canada's flash estimate. The advance in the month was entirely due to higher volumes, up 1.3%, whereas prices were down 0.7% in December.
- ▶ Sales were higher in 7 of 11 subsectors, led by gains in sales at motor vehicle and parts dealers (+3.8%) and general merchandise stores (+1.7%). In contrast, sales at gasoline stations were down 5.8% in December.
- ▶ At the same time, core retail sales – purchases excluding gas stations and motor vehicle and parts dealers – rose a still-respectable 0.4% in the final month of 2022. Broad-based gains were offset by continued weakness in housing-linked subsectors, such as sales at building material and garden equipment and supplies dealers (-3.8%) as well as furniture and home furnishings stores (-2.4%).
- ▶ For 2022, retail sales were up 8.2%, the second strongest year on record after 2021. However, with volumes advancing a paltry 1.5% on the year, the annual gain was largely a story of higher consumer goods prices.
- ▶ Building on December's momentum, Statistics Canada's advance estimate of retail sales is pointing to a gain of 0.7% in January 2023.

COMMENTS

Retail sales for December suggested that Canada's economy ended 2022 on a positive note. However, some of that momentum might be fleeting. Rising auto sales are partially the result of cars ordered earlier in the year finally being delivered. That probably continued into January. As a result, the flash estimate of ongoing strength in retailing won't be enough to change the Bank of Canada's outlook that the economy is set to slow down sharply this year.

GRAPH

Retail Sales Picked up Momentum at the End of 2022, but How Long Will It Last?



* Statistics Canada's flash estimate

Sources: Statistics Canada and Desjardins Economic Studies

IMPLICATIONS

December retail sales is the final major data release for Q4 2022, and looks to have strengthened our tracking further. We now expect growth could comfortably be between 1.75% and 2.00% annualized in the final quarter of 2022, well above the Bank of Canada's 1.3% tracking in its January 2023 Monetary Policy Report. The solid outlook for retail sales in January also reinforces our view that real GDP growth in Q1 2023 will outperform the Bank's forecast for 0.5% annualized. That said, inflation in January slowed more quickly than forecasters had expected, providing an offset to some of the signals coming from the real economy. (See our updated [Economic and Financial Outlook](#) for more information on our forecast.)