

ECONOMIC NEWS

Canada: Retail sales jump in January but should fall in February

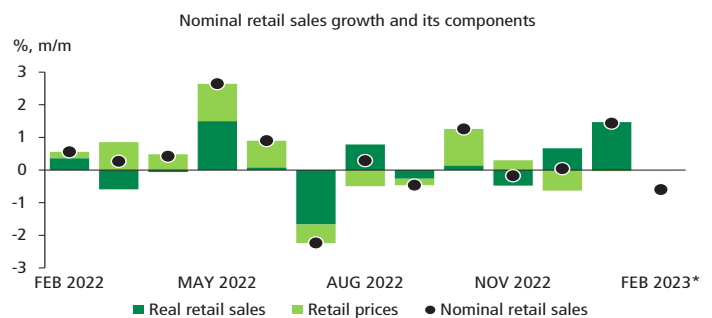
By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Retail sales rose 1.4% in January, more than double the pace anticipated by Statistics Canada and the consensus of forecasters. The advance in the month was entirely due to higher volumes, up 1.5%. This follows a substantial downward revision to December retail sales, from 1.3% to 0.7% in the month.
- ▶ Sales were higher in 7 of 9 subsectors, led by gains in sales at motor vehicle and parts dealers (+3.0%) and gasoline stations and fuel vendors (+2.9%).
- ▶ At the same time, core retail sales – purchases excluding gasoline stations and fuel vendors and motor vehicle and parts dealers – rose a still-respectable 0.5% in the first month of 2023.
- ▶ The broad-based gain in core retail sales saw continued weakness in furniture, electronics and appliances retailers (-1.0%) but a rebound in building material and garden equipment and supplies dealers (1.5%). This speaks to the mixed messages coming from the Canadian housing market to start the year.
- ▶ Statistics Canada’s advance estimate of retail sales is pointing to a decline of 0.6% in February 2023. This would be the weakest print since last July. While details are scant, we know that the seasonally-adjusted goods CPI was down 0.1% in the month, suggesting the decline is largely a volumes story. Depending on which estimate you use, it’s not clear that February’s likely decline in volumes is due to auto sales, and could be more broad based.

GRAPH

Retail Sales Started 2023 on a High Note but It’s Not Likely To Last



IMPLICATIONS

January retail sales signaled that 2023 started on a high note for Canadian consumers. This reinforces our estimates for a decent consumption-driven advance in Q1 2023 real GDP of 1.5% annualized or better. This is well above the 0.5% tracking in the Bank of Canada’s January 2023 Monetary Policy Report. But Statistics Canada’s flash estimate for February suggests the good times may not last. Indeed, the weakness in volumes against backdrop of falling goods prices could be a harbinger of things to come as households continue to feel the strain of high borrowing costs. Along with the lower-than-expected inflation print for February, a slowing in consumer activity would no doubt be music to Tiff Macklem’s ears, as it means everything is going according to plan.