

ECONOMIC NEWS

Canada: October retail treat to follow September trick

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HIGHLIGHTS

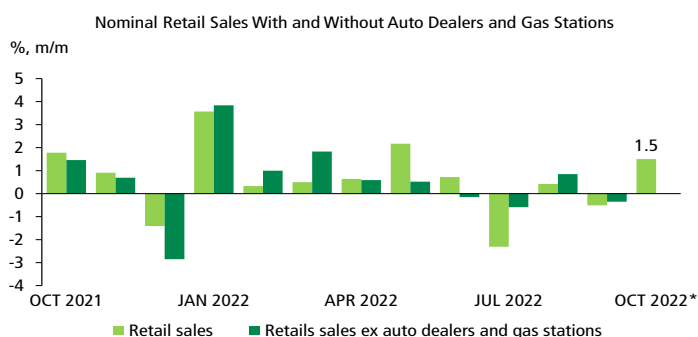
- ▶ Retail sales fell 0.5% in September, in line with the consensus of forecasters and Statistics Canada's advance estimate.
- ▶ Falling retail prices (-0.4%) drove the headline lower, supported by a more modest decline in retail sales volumes (-0.1%).
- ▶ Sales were down in 7 of 11 subsectors, led by lower sales at gas stations (-2.4%) and food and beverage stores (-1.3%), the former due to lower oil prices.
- ▶ At the same time, core retail sales – sales excluding gas stations and motor vehicle and parts dealers – were down 0.4% in September.
- ▶ With about half of Statistics Canada's survey responses received so far, the flash estimate for October is for a gain of 1.5%. This would be the strongest monthly advance in retail sales since May 2022.

COMMENTS

While the decline in spending at gas stations didn't come as a shock given the decline in oil prices in September, there were plenty of surprises under the hood of today's release. The first is spending at food and beverage stores. With the seasonally-adjusted CPI index for food moving meaningfully higher in September, the drop in sales at food and beverage stores means volumes of food purchased in stores must have dropped significantly. That could be the result of a further migration back to restaurants and bars and away from eating at home. Further, lower sales at building material and garden equipment and supplies dealers (-2.0%) look to be the result of reduced housing market activity on the back of higher interest rates. Finally, the October flash estimate, which showed an increase of 1.5%, is very outsized for an economy that the central bank is hoping to see cool. Even looking past the fact that goods prices were up meaningfully in October, sales look to have been robust in the first month of Q4.

GRAPH

Canadian consumers look ready to splurge in October



* Statistics Canada's flash estimate

Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

Today's retail release didn't move the needle on our tracking for Q3 real GDP growth of around 1.5% annualized. This is in line with the Bank of Canada's (BoC) forecast in the October 2022 Monetary Policy Report. Where the impact is being felt is in October, as the outsized gain expected in the month should provide an additional boost to Q4 real GDP. We're currently tracking growth in the final quarter of 2022 which is well above the Bank of Canada's 0.5% forecast. The strong flash estimate of retail sales in October came alongside heady readings for wholesale and manufacturing sales for the same month. This will pose challenges for the Bank as it looks to keep inflation on a downward trajectory while trying to engineer the softest landing possible. That said, we continue to view a 25bps hike in December as the most likely move by the BoC.