

ECONOMIC NEWS

Canada: Solid Retail Sales in August Aren't Likely to Last

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Retail sales increased by a consensus-beating 0.7% in August, as a 1.1% surge in volumes trumped a retreat in retail prices in the month.
- ▶ Sales were up in 6 of 11 subsectors, led by gains at food and beverage stores (2.4%) and motor vehicle and parts dealers (0.6%).
- ▶ Sales at gas stations fell by 0.2% for the second consecutive monthly decline, following a more than 12% drop in July, albeit largely due to falling prices.
- ▶ At the same time, core retail sales – sales excluding gas stations and motor vehicle and parts dealers – were up a heady 0.9%.
- ▶ The flash estimate for September looks more dour, however, with a drop of 0.5% expected in the month likely driven by falling sales volumes.

COMMENTS

The August retail sales data was full of surprises. At roughly double the pace of advance anticipated by the average of private sector forecasters and Statistics Canada's flash estimate, few saw this one coming. The story around volumes was the real shocker, as it looks to have been driven by sales at grocery stores and gasoline stations following declines in three of the prior four months for both. Nominal and real sales at automotive parts, accessories and tire stores also surprised well to the upside, trumping very weak sales activities at car dealers. All in all, this was generally good news after July's upwardly-revised but still outsized 2.2% drop in nominal retail sales.

But this good news didn't seem to last. With Statistics Canada's flash estimate pointing to a 0.5% decline in nominal retail sales in September and seasonally-adjusted goods prices being flat on the month according to the CPI, Q3 looks to have ended on a

GRAPH

August Retail Sales Surprised on the Upside but Don't Get Used to It



*Statistics Canada's flash estimate

Sources: Statistics Canada and Desjardins, Economic Studies

sour note. Indeed, this points to a substantial contraction in retail sales volumes in Q3 of more than 4% annualized.

IMPLICATIONS

While the August retail sales data may have had a lot to be positive about, the dismal outlook for September and Q3 retail sales volumes more generally suggests consumers are in no mood to spend. Indeed, it just reinforced our view that we're in for a sub-1% advance in annualized real GDP growth in the quarter. It also tees up weak consumption growth in the final quarter of 2022, in line with the forecast published in our [latest Economic and Financial Outlook](#).