

## ECONOMIC NEWS

# Canada: Falling Retail Sales Show Economy is Weakening

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### HIGHLIGHTS

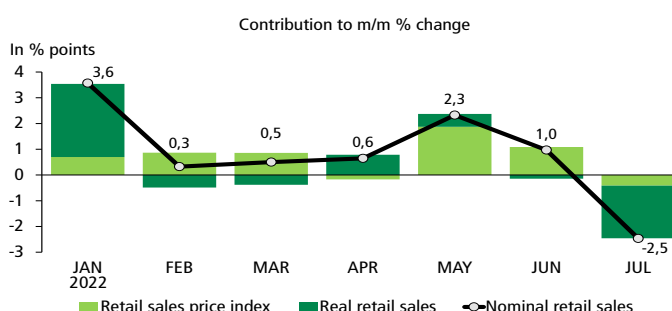
- ▶ Canadian retail sales fell by 2.5% m/m in July—the first decline in seven months. Volumes plunged by 2%, while prices retreated a more modest 0.5%.
- ▶ Gasoline station sales plummeted by 14% in nominal terms—also the first decline in seven months—while volumes decreased by 7%—the third successive drop.
- ▶ Purchases at motor vehicles and parts dealers fell by 0.5% in value and by 1.7% in real terms.
- ▶ Sales at food and beverage establishments dropped by 0.8% in June, with a 1.7% real decline. Grocery stores and alcohol sales saw the largest declines in real terms.
- ▶ Seven of 10 provinces witnessed monthly decreases in nominal retail sales, led by Ontario (-5.0%), and Saskatchewan (-3.7%).
- ▶ Statistics Canada's flash estimate points to a middling 0.4% m/m increase in August.

### COMMENTS

The July retail sales print is the strongest signal yet that Canadian households are pulling back on spending amid decades-high inflation and sharply higher borrowing costs. The big drop in volumes is significant in this respect, as it was the largest outside of a recession or the pandemic since 1998. And declines across most provinces and expenditure categories suggest that this is a broad-based slowdown. Further reductions in furniture, building, and garden supply spending imply that the rapidly-correcting Canadian housing market continues to contribute meaningfully to the weakness. They also reinforce our outlook for a real estate sector-led economic downturn. However, given falling goods inflation in August, we suspect that the small retail sales increase pencilled in will prove to be volume- rather than price-driven.

### GRAPH

#### Real Retail Sales Plunge as Economy Softens



Sources: Statistics Canada and Desjardins, Economic Studies

### IMPLICATIONS

We had expected a decline in July retail sales, but a deeper-than-estimated drop lowers our tracking of Q3-2022 real Canadian GDP growth to being barely in positive territory. More broadly, the print adds to a series of disappointing results thus far reported for the third quarter. We still expect Canada's economy to weaken steadily in the second half of this year, eventually leading to a recession in the first half of 2023 (see our latest [Economic & Financial Outlook](#)). Yet the ugly July numbers likely won't be enough to alter the path for monetary policy. We still expect the Bank of Canada to prioritize the fight against inflation and raise rates by 50 bp in October.