ECONOMIC NEWS

Canada: Hot Inflation Bloats Retail Sales Again

By Marc Desormeaux, Principal Economist

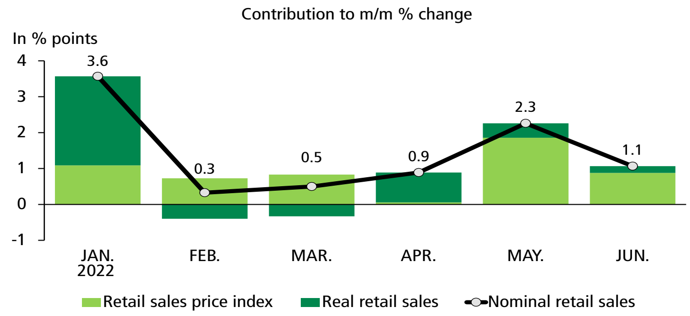
HIGHLIGHTS

- Canadian retail sales rose by 1.1% m/m in June following May's outsized gain. The headline figure again masked a surge in retail prices—retail sales volumes climbed by just 0.2% in the month.
- Gasoline station purchases grew by a solid 3.9% in nominal terms, slower than the 9.6% in May but volumes fell by 1.3%—the second straight monthly drop.
- Sales at motor vehicles and parts dealers advanced by 1.8% in value and by 1.6% in real terms.
- Sales at food and beverage establishments dropped by 1.8% in June. Volume decreases were broad-based across categories, but alcohol sales saw the largest percentage declines.
- Seven of 10 provinces witnessed monthly increases in nominal retail sales, led by Saskatchewan (+3.7%), and Ontario (+1.7%). Newfoundland and Labrador, Nova Scotia, and New Brunswick experienced losses.
- May's retail sales volumes increases were revised incrementally higher from 0.4% to 0.5%.
- Statistics Canada's flash estimate for July points to a decline of 2% m/m in July.

COMMENTS

Another month, more evidence that consumer demand is faltering in the face of decades-high inflation, higher borrowing costs, and market uncertainty. Two consecutive real declines in gasoline station outlays suggest that those purchases may not be as inelastic to elevated energy prices as in the past, perhaps due to increased hybrid work. The slide in furniture, building, and garden supply spending paused, but we foresee more weakness in the category as Canada's housing market correction persists.

GRAPH
Price inflation continues to drive bulk of retail sales gains



Sources: Statistics Canada and Desjardins, Economic Studies

Expenditures at motor vehicles and parts dealers held firm for a second straight month, but we suspect that this category will also weaken in the coming months as the effects of interest rate hikes filter through the Canadian economy. Though total inflation eased in July, the size of the flash estimate drop suggests at least some softness will be volume related. A shift towards services spending may also have been at play in July.

IMPLICATIONS

June's real retail sales print was not far off our expectations and as such does not materially alter our estimates for real Canadian GDP. Broadly, we expect Canada's economy to weaken steadily in the second half of this year in response to slowing global growth, widespread market uncertainty, and sharply higher interest rates. We still see a roughly even probability of recession in Canada in 2023 and anticipate that the Bank of Canada will have to cut rates next year in respect of the weakening economy.

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics