

ECONOMIC NEWS

Canada: Retail Sales Showed Surprising Strength To End 2022

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Retail sales fell 0.1% in November, in line with our call but above consensus expectations. The decline was entirely due to a contraction in volumes, with retail prices inching higher in the month.
- ▶ Sales were lower in 6 of 11 subsectors, led by contraction in sales at building material and garden equipment and supplies dealers (-3.8%), miscellaneous store retailers (-2.0%), and food and beverage stores (-1.6%).
- ▶ At the same time, core retail sales – purchases excluding gas stations and motor vehicle and parts dealers – posted a much deeper 1.1% plunge in November. This is steepest monthly decline since December 2021. Indeed, gas stations (2.2%) and motor vehicle and parts dealers (1.4%) saw some of the few offsetting gains in sales in the month.
- ▶ With about one third of Statistics Canada's survey responses received so far, the flash estimate for December is for a 0.5% advance.

COMMENTS

In line with our expectations, nominal retail sales was a tale of two types of consumer goods: autos and fuel versus everything else. What really surprised us though is the strength of Statistics Canada's tracking for the final month of 2022. We already know from the CPI data released earlier this week for December that seasonally-adjusted goods prices likely fell about 0.4% in the month. This would imply the retail sales volumes need to have risen sharply in December to offset the price drag. That said, with only one third of responds to the retail survey received so far and sizeable misses in StatCan's early estimates for manufacturing, wholesale trade, and retail sales for November, we'll respectfully take the December flash estimate for retail sales with a grain of salt.

GRAPH

November spending is down but there may be hope for the holidays



* Statistics Canada's flash estimate.

Sources: Statistics Canada and Desjardins Economic Studies

IMPLICATIONS

Incorporating today's retail sales data into our tracking for Q4 real GDP growth, we continue to anticipate an advance of 1.3% (q/q, saar) in the quarter. This remains well above the Bank of Canada's forecast of 0.5% in its October 2022 Monetary Policy Report (MPR). As such, we expect it will upgrade its forecast next week. This adds to the upside surprise for Q3 real GDP growth as well as upward historical revisions to real GDP relative to when the Bank last published the details for its outlook. Taken together with ongoing labour market strength, still elevated inflation and wage growth, and record high near-term consumer inflation expectations, today's print did nothing to move us off of our view that the Bank of Canada will hike the policy rate by another 25 basis points next week. But after that, we expect the Bank to take pause to survey the impacts of its aggressive rate hikes over the past year on the economy. (For more details on our forecast, please see our latest [Economic & Financial Outlook](#).)