

ECONOMIC NEWS

Canada: Auto Sales Drag On March Retail Sales

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- ▶ Retail sales were largely unchanged in March, which was well below our tracking, the consensus and Statistics Canada's flash estimate.
- ▶ Sales were up in 10 of 11 subsectors, equivalent to three quarters of retail trade. Sales at gas stations topped the leaderboard with an advance of 7.4% m/m in March.
- ▶ However, a sharp drop in sales at motor vehicle and parts dealers of -6.4% entirely eliminated the gains in the other 10 subsectors.
- ▶ Core retail sales, which exclude gasoline stations and motor vehicle and parts dealers, advanced by a respectable 1.5% in the month.
- ▶ The March print was entirely propped up by a sharp increase in prices as volumes were down 1.0%.
- ▶ Despite the weakness in March, retail sales were up 3% in Q1 2022 – the largest quarterly advance since Q3 2020 when the economy reopened from the initial COVID lockdowns.
- ▶ Statistics Canada's advance estimate puts growth in retail sales at 0.8% in April.

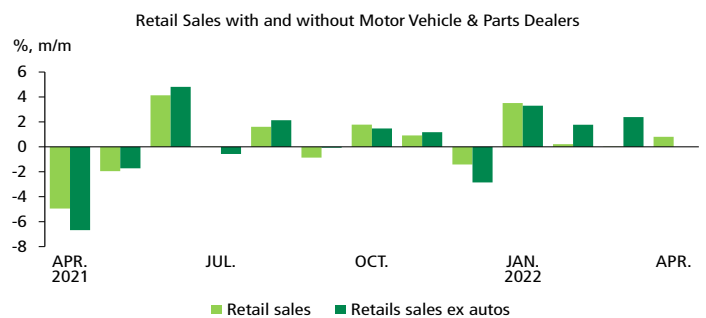
COMMENTS

The March retail sales print came as a surprise. While sales of motor vehicles from other sources pointed to weakness in the month, it wasn't as large as the observed drag. Retail sales excluding motor vehicle and parts dealers also underperformed our expectations.

What didn't surprise was the role that prices played in buoying the headline growth number for March. Retail sales volumes have been under consistent pressure as goods prices have risen and consumers have shifted consumption toward services as public-health restrictions have been removed. Given the April

GRAPH

Auto sales have started to weigh heavily on headline retail sales



Sources: Statistics Canada and Desjardins, Economic Studies

CPI and other price data to-date, we expect elevated prices to continue to weigh on retail sales volumes in the coming months. Falling home and financial asset prices will also contribute to this weakness as it softens sentiment.

IMPLICATIONS

Given it came at the end of the quarter, March retail sales didn't move the needle much for our forecast for Q1 2022 real GDP growth of between 5% and 5.5% (q/q, saar). This remains well above the Bank of Canada's forecast of 3% for the same quarter published in its April 2022 *Monetary Policy Report*. As such, we continue to expect the Bank will act forcefully at its upcoming June meeting by raising the overnight rate by 50 basis points.