Data Release: Canadian retail sales went into hibernation in January

- Retail sales fell by 1.7% in January, following a (modestly) upwardly revised decline of 1.8% in December. On a volume basis, sales fell 1.2%.
- The drop in sales was broad-based, as pull-backs were recorded in 7 of the 11 major subsector. That said, the overall decline was largely led by gasoline sale. Excluding this category, sales fell a more modest 0.8% month-on-month. Across the other sectors, sales of motor vehicles and parts fell for a fourth straight month, down 1.4% in January. Food and beverage retailers (-1.2%), grocers (-0.1%), and general merchandise stores (-1.1%) also saw sales slow on the month. In contrast, electronics and appliance stores (+3.8%) saw a reversal of the December sales drop, and clothing and accessory stores also saw sales rise on the month (+1.5%)
- Looking across the country, retail sales were down in nine of the ten provinces, with only P.E.I. seeing rising sales (+0.5%). Significant sales drops were seen in Alberta (-2.8%), Quebec (-2.4%), and Ontario (-1.8%). Sales in the territories were up 1.5%, led by Nunavut and N.W.T.

Key Implications

- The drop in oil prices seen in the latter half of 2014 continues to be seen in the data. A pullback in retail sales was to be expected on the basis of this decline alone, as consumers pay less at the pumps. That said, the weak income growth that many Canadians are seeing appears to be offsetting these savings somewhat. As a result, we expect only slight growth in consumer spending in the first quarter of 2015 as auto sales are expected to decline outright. There are potential downside risks to our expectation of 1.0% GDP growth in Q1.
- As the early data for the first quarter continues to disappoint, all eyes turn to the Bank of Canada. The major impacts of the drop in oil prices are expected to be concentrated mainly in the first half of the year, which would suggest that a second rate cut would not be in order (given that it takes some time for the impact of a cut to make itself felt in the economic data). For this reason and others, we continue to expect that the Bank of Canada will continue to hold until the end of 2016. That said, this week’s move down in oil prices is certain to affect the Bank’s thinking, and careful monitoring of their communication regarding the stance of monetary policy is warranted.

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