September 23, 2016

TD Economics

Data Release: Canadian retail sales edge down again in July but rise in volume terms

- Canadian retail sales fell 0.1% (m/m) in July, following an upwardly revised but nearly flat reading last month. Today's reading came in below the median consensus forecast which called for a small gain of 0.1%. When stripping away price effects however, it was a much better story as sales rose 0.3% in volume terms.

- The details of the report were somewhat mixed as sales fell in 5 of the 11 subsectors. Weaker sales at gasoline stations (-3.0%) due in part to lower prices at the pump, along with lower sales at motor vehicle and parts dealers (-0.2%) helped drive down the headline. Sales were up 0.2% when excluding gasoline stations and 0.4% when excluding both of these volatile categories.

- Stronger sales at building material and garden equipment (1.5%) and clothing and clothing accessories (1.6%) stores helped moderate the decline.

- On a regional basis, sales were down in 6 provinces. The biggest declines were recorded in New Brunswick (-6.9%) and Newfoundland and Labrador (-6.2%) which coincided with an increase in the harmonized sales tax in both provinces in July. Sales were also down in all three Prairie provinces, while Ontario and British Columbia recorded moderate improvements of just below 1%.

Key Implications

- On the surface, today's data release marks another disappointment as nominal sales have seen no improvement since April. But underneath, the mixed details do offer some encouragement, as sales volumes recorded a decent gain – the first in five months.

- Much more is needed to make up the lost ground earlier in the year but the improvement in real sales sets up the third quarter for a good start. The enhanced Child Benefit payments that came in in late July, along with reconstruction activity in the aftermath of the Alberta wildfires should provide an additional boost to spending. In combination with an expected pick up in exports (supported by the recent July trade report), the Canadian economy should grow at an annualized rate of about 3% this quarter.

- Beyond the near-term, consumer spending is expected to settle down to a 'cruising speed' below 2%, limited by high debt levels and only moderate gains in employment and income. As such, the rotation in growth away from consumer spending and housing, and into exports and business investment will prove essential to support a decent growth profile.

- On a regional basis, it is no secret that retail sales have lost some steam in most provinces when compared to highs recorded earlier in the year. But perhaps the most interesting story is yet to unfold in British Columbia where the housing market is cooling – a trend reinforced by the additional land transfer tax on foreign nationals. This is expected to have a direct impact on housing-related sales, along with indirect impacts on overall spending via a decline in net worth and confidence. It remains to be seen how potently this will manifest in spending patterns in the months ahead. For the time being, even when factoring in a cooldown in the second half of the year, B.C. is still well positioned to maintain the trailblazer status for growth in retail sales for 2016 as a whole – thanks in part to the lofty employment gains that have been recorded thus far.

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