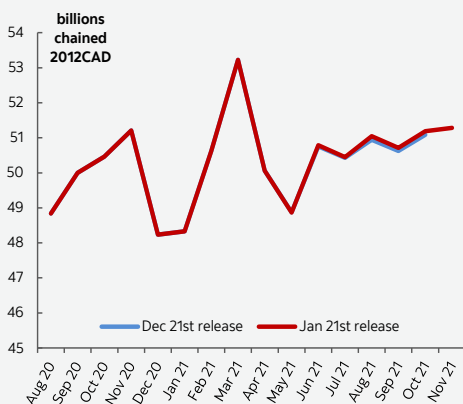


Contributors

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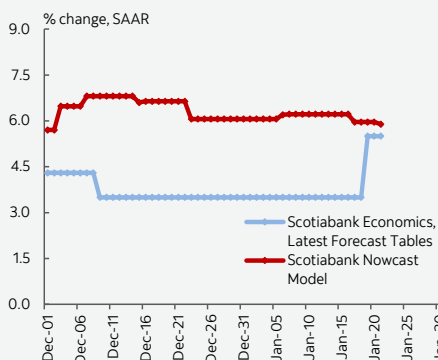
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Chart 1: Retail sales, Canada



Sources: Scotiabank Economics, Haver Analytics, Statistics Canada

Chart 2: The Evolution of the Scotiabank Economics Q4-2021 Nowcast



Sources: Scotiabank Economics, Bloomberg, Haver Analytics.

Scotiabank Nowcast: Retail Sales Undershoot Expectations, Q4-2021 GDP Eases to 5.89%

This note is part of a series that will be published after important data releases, documenting mechanical updates of the nowcast for Canadian GDP coming from the Scotiabank nowcasting model. The evolution of this nowcast will inform Scotiabank Economics' official macroeconomic outlook.

The model is described in a related note [here](#).

- Rounding out major releases for November, the Canadian retail sales print came out with a double dose of disappointment: sales growth was even more tepid than previously expected, at +0.7% m/m compared to the preliminary estimate of +1.2% m/m. The rapid increase in consumer prices meant that the volume of sales was almost flat m/m at +0.2%. In addition, preliminary data suggests that retail sales weakened substantially in December (-2.1% m/m), mirroring the experience south of the border. Overall, the marginally weaker-than-expected retail print drove the Q4-2021 Canadian GDP nowcast down to +5.89% Q/Q SAAR.
- The increase in sales in November was on relatively poor breadth, with only 6 of 11 sectors expanding. The rise in building materials and garden equipment (+3.0% m/m), clothing and accessories (+3.0% m/m) and gasoline (+4.9% m/m) was partly offset by the declines at furniture and home furnishing stores (-1.2% m/m) and electronics and appliances (-1.1% m/m), as well as autos and parts (-0.3% m/m). Meanwhile, e-commerce sales were down -3.5% m/m in November, partly due to supply chain constraints.
- The retreat in Canadian retail sales in December was somewhat expected, as the similar decline in sales in the US gave an early hint that growth towards the end of Q4-2021 was slowing. A range of factors likely weighed on consumer spending, with the rapid spread of the Omicron variant in the second half of the month, the shift to early holiday shopping by consumers to account for delivery delays due to overstretched supply chains, the lack of products to buy, and perhaps a shift to spending on services.
- While the estimate of growth in Q4-2021 remains robust, although subject to significant risks to the upside and downside, the deterioration in growth towards the end of the quarter gives a poor hand-off for Q1-2022, on top of a significant hit to activity expected in January with the re-introduction of public health restrictions in various provinces and increased absenteeism. The good news is that this weakness should be temporary: as the Omicron wave ebbs, the economy will get back to work.

Table 1: Canadian GDP Nowcast, Q4-2021

	Nowcast Date	Q4-2021 GDP Growth, %
Initial Nowcast	17-Jan-22	5.96
Revisions and other data		+0.03
Retail sales, Canada		-0.10
Current Nowcast	21-Jan-22	5.89

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