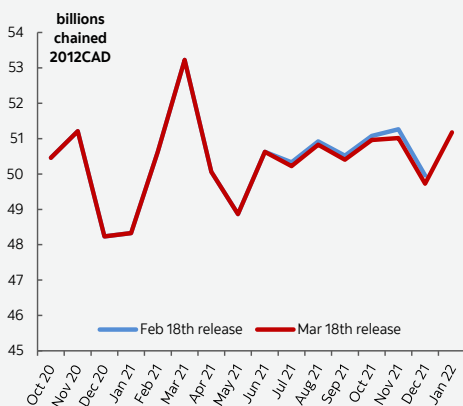


#### Contributors

##### Nikita Perevalov

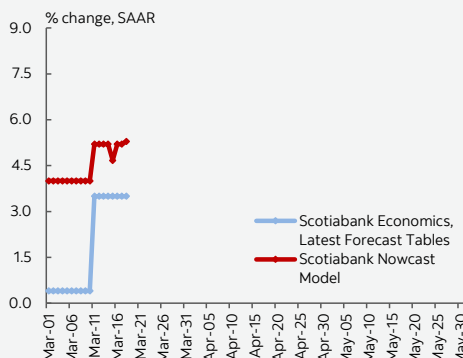
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Chart 1: Retail sales, Canada



Sources: Scotiabank Economics, Haver Analytics, Statistics Canada

Chart 2: The Evolution of the Scotiabank Economics Q1-2022 Nowcast



Sources: Scotiabank Economics, Bloomberg, Haver Analytics.

## Scotiabank Nowcast: Retail Sales Rebounded in January, Pushing Q1-2022 GDP Estimate to 5.29%

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](#).

- Despite the cold weather, January was kind to the Canadian retailers, who enjoyed a rebound in foot traffic at stores across the country. Retail sales rose +3.2% m/m in January (+2.9% m/m in volumes), stronger than the early estimate from Statistics Canada. Despite the spread of the Omicron variant, the sharp rise in retail sales improved the outlook for Q1-2022, pushing the estimate for GDP growth to +5.29% Q/Q SAAR.
- The strength in January was broad-based, as 9 of 11 subsectors saw higher sales. Among those where sales rose the most in the month were sellers of furniture and related items (+10.0% m/m) and motor vehicles and parts (+5.3% m/m). Despite the issues higher up the supply chain—as Canadian manufacturers and wholesalers continue to struggle with lack of crucial inputs—retail sales of new vehicles rose in January in part on higher imports.
- In addition to robust sales of furniture and related items, strong home renovation activity pushed sales of building and garden materials and equipment up +8.9% m/m. E-commerce sales were also up sharply in January (+8.3% m/m).
- January strength is a welcome sign of resilience in the face of the rapid spread of the Omicron variant, in addition to the rising geopolitical tension. However, it is unclear whether the retail sales' rebound has any more runway left. The preliminary estimate from Statistics Canada showed sales declining -0.5% m/m in February, albeit on a very low survey response rate. In addition, with the war in Ukraine starting on the 24th of February, subsequent gas price increases might sap consumers' purchasing power and temper further increases in the overall economic activity.
- One thing is certain: higher commodity prices mean inflation should continue to run significantly above the Bank of Canada's control range this year, and unless the Bank follows through on removing the policy stimulus this year by hiking the overnight rate, there is a significant danger of inflation expectations moving ever higher. This would make the task of the central bank to push inflation back to the target much more difficult.

Table 1: Canadian GDP Nowcast, Q1-2022

	Nowcast Date	Q1-2022 GDP Growth, %
Previous Nowcast	16-Mar-22	5.20
Revisions and other data		+0.00
Retail sales, Canada		+0.09
Current Nowcast	18-Mar-22	5.29

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