

Scotiabank Nowcast: February Retail Sales an Upside Surprise, Q1-2022 GDP Estimate at +4.91%

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.

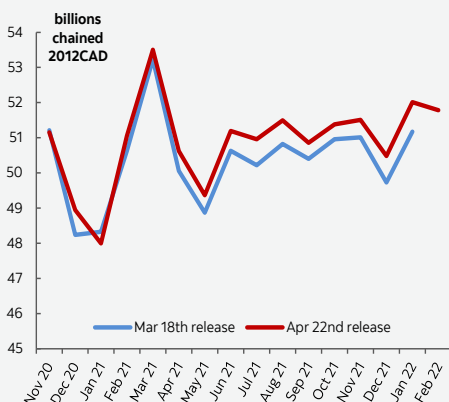
The model is described in a related note [here](#).

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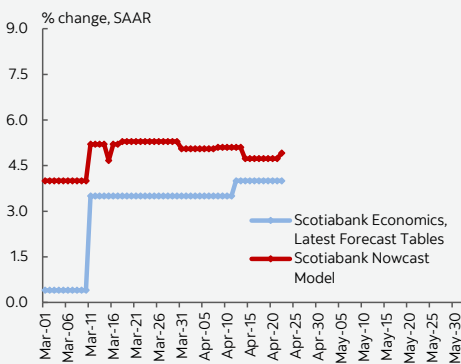
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Chart 1: Retail sales, Canada



Sources: Scotiabank Economics, Haver Analytics, Statistics Canada

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



Sources: Scotiabank Economics, Bloomberg, Haver Analytics

- Rounding out the string of major economic releases for February, Canadian retail sales surprised to the upside, edging up +0.1% m/m, despite earlier indications of a small decline. In volume terms sales did fall (-0.4% m/m), but all in all the release is another piece of evidence that the Canadian economy did not lose its vigour in the early part of 2022. Stronger-than-expected retail sales push the Q1-2022 Canadian GDP nowcast to +4.91% Q/Q SAAR.
- The details of the retail sales release were stronger than the headline number would suggest, as core retail sales, which exclude sales of motor vehicles and parts and gasoline, rose by +1.4% m/m. The latter was pushed higher by sales of clothing and accessories (+15.1% m/m), helped by the lifting of public health restrictions in several provinces. This likely also drove e-commerce sales down by -4.6% m/m in February, as consumers flocked to physical stores.
- In addition, sales of building materials continued to soar in February, rising +5.6% m/m on a continued boom in home construction and renovations.
- The strength in core sales was offset by a large decline in sales of motor vehicles and parts (-5.1% m/m), the largest fall since December 2020. The activity in the sector is continuing to sputter due to the persistent lack of parts, such as computer chips.
- Going forward, a very preliminary estimate for retail sales growth in March is +1.4% m/m, which should put overall sales growth in Q1-2022 into double digits. A large part of the increase was likely due to high prices, with CPI rising by +6.7% y/y in March, much stronger than expected, partly due to spiking gas prices in the wake of the Russia-Ukraine war. High consumer prices point to a vulnerability at the heart of the Canadian economy—household budgets may not be able to withstand for long record increases in prices of food and energy, forcing weaker growth in spending on discretionary items. The uncertainty over the course of the war and the impact of sanctions on the global economy and our trading partners, rising borrowing rates as the Bank of Canada withdraws monetary stimulus—offset to some extent by higher revenues from the Canadian energy exports—complete the smorgasbord of risks to the Canadian economy in 2022–23.

Table 1: Canadian GDP Nowcast, Q1-2022

	Nowcast Date	Q1-2022 GDP Growth, %
Previous Nowcast	14-Apr-22	4.73
Revisions and other data		+0.05
Retail sales, Canada		+0.13
Current Nowcast	22-Apr-22	4.91

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