

Scotiabank Nowcast: Canadian Retail Sales Mixed, Leaving Q1-2022 GDP Estimate Lower at +4.84%

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.

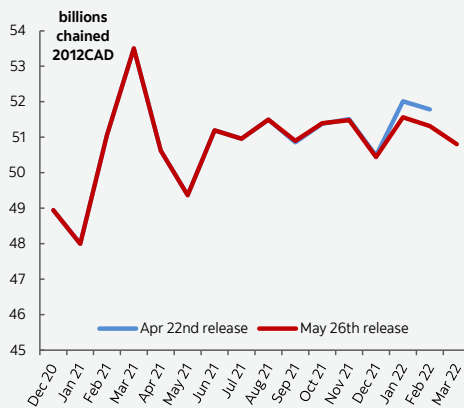
The model is described in a related note [here](#).

Contributors

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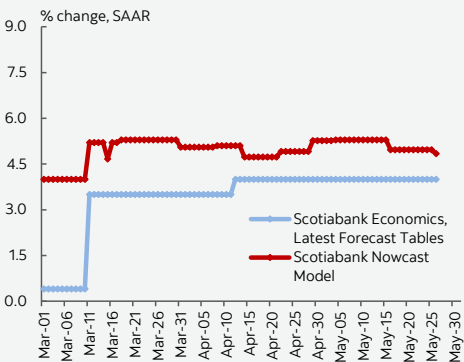
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Chart 1: Retail sales, Canada



Sources: Scotiabank Economics, Haver Analytics, Statistics Canada

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



Sources: Scotiabank Economics, Bloomberg, Haver Analytics.

- This morning, StatCan published its estimate of the Canadian retail sales in March, completing the run of major macroeconomic releases for Q1-2022. Sales in March were virtually unchanged, which was a disappointment compared to StatCan's early estimate of +1.4% m/m growth. However, the negative surprise was fully explained by the decline in motor vehicles and parts (-6.4% m/m), with the remaining 10 sectors growing briskly. In volume terms, the overall sales in March were down -1.0% m/m, again on a pullback in motor vehicles and parts. As a result the nowcast for the Canadian GDP growth in Q1-2022 eased to +4.84% Q/Q SAAR.
- The details were better than the headline, as core retail sales which exclude gas stations and motor vehicles and parts dealers grew +1.5% m/m in March, driven mainly by strong increases in building materials and garden equipment (+3.7% m/m), and clothing and accessories (+2.2% m/m). Robust core sales may mean that GDP growth in March was stronger than what the headline retail print suggests.
- However, the more worrying part of the retail sales release was the revisions going back to January, in particular in terms of volumes (chart 1). The weaker sales rebound in January lowered the estimate of overall growth in real retail spending from over +4% Q/Q SAAR to just under +1% Q/Q SAAR in Q1-2022, posing a risk of revisions to the published GDP growth for January and the quarter overall.
- The anaemic growth in retail sales volumes in Q1-2022 contrasts with a sharp expansion in nominal terms (+12.5% Q/Q SAAR), with a powerful increase in consumer prices making up the difference. The combination of high inflation and weak growth has already shown up in a few Canadian economic data releases, now including retail sales, which could be an early sign that Canada is not immune to the "stagflationary" trend slowly shaping up in the world economy.
- Although it is too early to say, the various "flash" estimates released by StatCan for April so far do not give much cause for optimism that real growth will meaningfully pick up in the short term, since the estimated expansion in retail sales (+0.8% m/m), manufacturing (+1.6% m/m) and wholesale (+0.2% m/m) was most likely due to higher prices.

Table 1: Canadian GDP Nowcast, Q1-2022

	Nowcast Date	Q1-2022 GDP Growth, %
Previous Nowcast	16-May-22	4.97
Revisions and other data		-0.05
Retail sales, Canada		-0.08
Current Nowcast	26-May-22	4.84

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