

## Canadian Retail Soft Patch Continues

### Canada, nominal retail sales, m/m%, headline / ex-autos, December:

Actual: -0.1 / -0.5

Consensus: -0.3 / -0.3

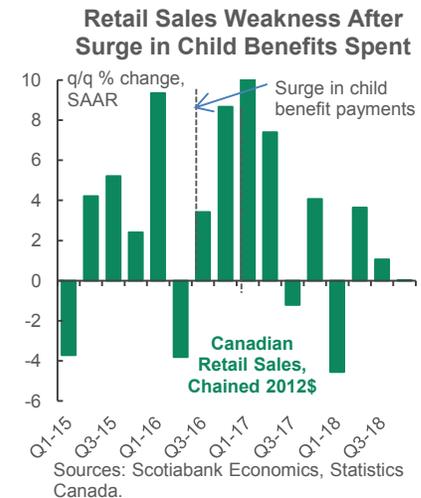
Scotia: -0.5 / -0.3

Prior: -0.9 / -0.7 (revised from -0.9 / -0.6)

- Canada continues to suffer the aftermath of the surge in retail sales during 2016H2–2017H1 that was so powerful it brought forward consumption activity at the expense of multiple future quarters. The combination of B-20 mortgage stress guidelines introduced at the start of last year and tightened provincial housing measures also contributed toward a weakened housing and consumer picture over 2018. The chart below demonstrates the quarterly growth in retail sales volumes including the ‘16H2–’17H1 acceleration and ensuing deceleration. Both effects—tightened housing rules and post-stimulus hangover effects—should be maturing such that solid income growth and very strong job gains should drive an improved consumption picture over 2019. For more on the stimulus that drove this effect through 2015 rate cuts and the large surge in child benefit payments see this past week’s Global Week Ahead [here](#). It is important not to gloss over recognition of this argument as a contrasting perspective to those who argue that the consumer faces secular decline in Canada which is a narrative I don’t subscribe to.
- The retail report is slightly better than the headline estimates suggest. For one thing, the dollar value of sales fell by less than estimated but only on headline, not ex-autos. For another, however, the decline was primarily due to lower prices as the volume of sales increased a little. The volume increase is what matters more to the retail sector component in GDP.
- Sales volumes were up 0.2% m/m.
- GDP growth is tracking a rise of 0.1% m/m at best in December. Some of the higher frequency drivers include gains in retail volumes (+0.2% m/m) and wholesale volumes (+0.3% m/m) but hours worked slipped by -0.1% m/m, manufacturing sales volumes were down by 1.2% and housing starts fell by 4.9%.
- This monthly GDP impact translates into about 1% annualized SAAR q/q GDP growth in Q4.
- By sector, sales were up in only four out of eleven categories. Auto sales and parts were up 1.0% m/m led by a 1.2% jump in sales at new car dealers that caught us off guard in terms of our own shop’s tracking, a 1.4% rise in used car dealers’ sales and a 1.6% rise in sales of parts. Furniture and home furnishings stores’ sales were up a tick (+0.1%). Building material outdoor supplies were up 3.1% m/m. Food and beverage stores saw a 0.9% sales increase.
- Declines included a 3.6% drop at gas stations that was driven by lower gas prices. Sales at electronics and appliance stores fell 4% m/m while sales of clothing/accessories fell 1%, sporting goods and hobby stores were down 1.3%, health and personal care store sales fell 1.1% and general merchandise and miscellaneous categories were also weak.

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- By province, sales were up in six out of ten provinces in value terms. The 0.1% m/m decline in total retail sales was due to the fact that sales were soft in the four biggest provinces. Ontario's sales fell by 0.5% m/m, Quebec fell by 0.2% m/m, BC was also down by 0.2% and Alberta was flat. Large gains in Manitoba, Newfoundland and Labrador, Nova Scotia and New Brunswick averted a worse outcome for nationwide sales.

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