Canadian Consumers Keep Stumbling

- Retail sales disappointed expectations…
- ...as volumes fell by 0.5% m/m in May
- There has been no growth in retail volumes for three consecutive quarters
- Weather likely didn't help…
- …but can't explain the longevity of the weakness
- The C$ depreciated and short-term rates rallied...
- ...as the market probability of a BoC rate cut in Oct/Dec is a coin toss

Canadian retail sales, m/m % change headline/ex-autos, May:

Actual: -0.1 / -0.3

Scotia: 0.4 / 0.4

Consensus: 0.3 / 0.4

Prior: 0.2 / 0.0 (revised from 0.1 / 0.1)

Canadian retailers continue to struggle with what is now three consecutive quarters of no growth in sales volumes. A downside disappointment to retail sales and generally weak underlying details drove the C$ to depreciate by about one-third of a US cent to 1.3092 on a USDCAD basis. Canada's short-term rates market is sharply outperforming the US this morning; the two year Canada yield fell by 2-3bps post-release and is outperforming the US 2 year Treasury yield by over 5 basis points on the day so far.

Retail sales volumes were down by 0.5% m/m during May. Therefore, all of the decline in the value of sales was due to lower volumes as an offset to higher prices.

There was considerable breadth to the drop in volumes. Auto dealer sales volumes fell by 0.3% m/m, food and beverage volumes fell 2.5%, clothing/accessories stores saw a 3% m/m drop in volumes, sporting goods and hobby stores fell 1.9% and general merchandise store sales were down by 1.3%.

In value terms, however, breadth wasn't too bad as sales fell in 4 of 11 sectors especially food and beverage stores (-2% m/m), clothing and accessories (-2.7%) and general merchandise (-1.1%). Gas station sales were up 3.5% on higher prices so fade that. Pot sales were up by 14.8% m/m but they only represent about 0.2% of total retail sales.

Over the past four quarters, annualized and seasonally adjusted quarter-over-quarter growth in retail sales volumes has been as follows, and also depicted in the accompanying chart:

2019Q2: 0.1%

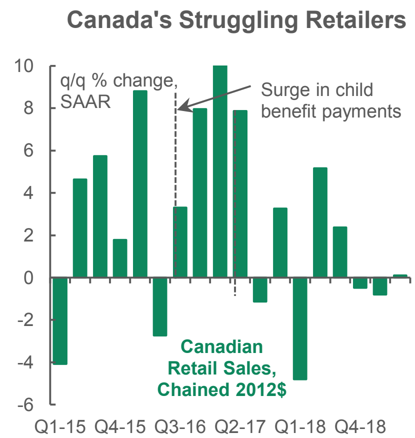
2019Q1: -0.8%

2018Q4: -0.5%

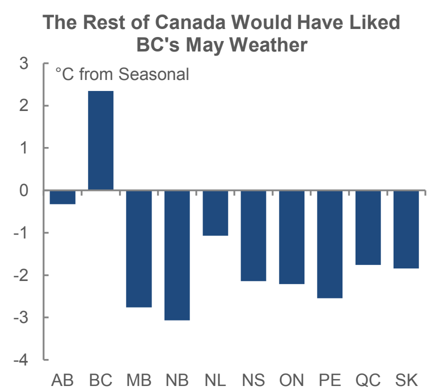
2018Q3: +2.4%

CONTACTS

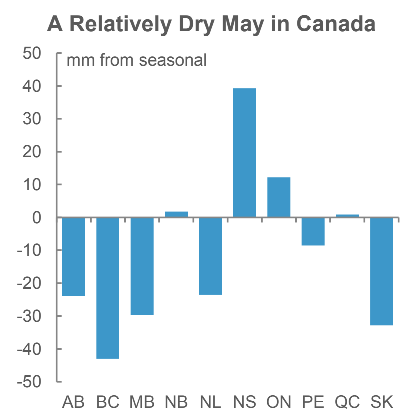
Derek Holt, VP & Head of Capital Markets Economics
416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com



Sources: Scotiabank Economics, Statistics Canada.



*Seasonal calculated using 1981-2010 data
Sources: Scotiabank Economics, Environment Canada



*Seasonal calculated using 1981-2010 data
Sources: Scotiabank Economics, Environment Canada

Therefore, there has only been one decent quarter in the past four quarters and that was way back in the third quarter of last year. Since then, there has been no growth.

Pending wholesale, **monthly GDP for May is tracking at a modest rise of 0.1% m/m.** This is being entirely driven by manufacturing volumes (+1.7%) with a trade assist. Housing starts fell 15% m/m in May, retail volumes were down 0.5% and hours worked were down 0.3%. Recall that the trade lift and associated manufacturing gain was likely transitory and distorted (here).

Q2 GDP is still tracking over 2.5% q/q SAAR but this comes with a significant caution. The gains in terms of the quarterly math were front-end loaded. GDP exited Q1 with a rise of 0.5% m/m in March and then entered Q2 with a rise of 0.3% in April.

There is no retail sector assist in the quarter thus far. A production rebound that lifted exports, manufacturing, wholesale and hours worked were behind the Q2 rebound but I'm still of the view that there were sizeable transitory drivers that are likely to soften into Q3. If so, then the BoC may look back upon the four quarters from 2018Q4 to 2019Q3 and perhaps only witness one single quarter of growth that was above potential

By province, sales were down in eight of ten provinces. Gains were registered in the two biggest provinces including Ontario (+0.5% m/m) and Quebec (+0.9% m/m). Both coasts and the prairies suffered losses.

As the two accompanying charts demonstrate, weather carried mixed influences during the month in what was generally a cooler than normal month of May and a drier than usual month of May outside of Ontario and Nova Scotia.