

Canada On Track For 4th Straight Quarter of No Growth In Retail Sales

- July was another flat month for retailers...
- ...which extends softness to four consecutive quarters
- July and Q3 GDP growth are tracking poorly
- Pressure may be building upon monetary and fiscal policy

Retail sales value, headline/ex-autos, m/m % changes, SA, July:

Actual: 0.4 / -0.1

Scotia: 0.7 / 0.4

Consensus: 0.6 / 0.3

Prior: -0.1 / 0.9 (revised from 0.0 / 0.9)

July was another disappointing month for Canadian retailers. The only reason sales were higher in July was because of higher prices and that won't have the sector contributing to GDP growth.

The volume of sales was flat in both month-ago and year-ago terms. Prices increased by 0.4% m/m.

Early tracking for Q3 points to annualized growth in retail sales volumes of just 0.2% by taking Q2 and July and then assuming August and September come in flat in order to focus the math upon the effects of what we know so far.

In other words, **this is the fourth consecutive quarter in which retail sales volumes have experienced no material growth** (chart 1). I went over possible drivers in the morning note including the impact of monetary policy tightening on the debt service burden alongside other generally robust measures of household credit quality and finances. The longer such weakness persists, the greater the pressure will be upon monetary and fiscal policy. For how long might policy makers remain content with having taken out froth following periods of excess and doing so by raising rates and tightening financing rules?

July GDP is tracking no growth and Q3 GDP is tracking seasonally adjusted and annualized growth of only about ½%. This uses monthly production-based GDP because it is higher frequency than quarterly expenditure based GDP that is more commonly used by forecasters and the BoC. The spread between the two concepts often lies within +/- ½% each quarter. Differences can arise because quarterly expenditure-based GDP also considers *how* production was achieved, whether through more or less inventory investment and possible more or less of an import leakage effect. In other words, Q3 is shaping up to be the third very weak quarter for overall economic growth in the past four quarters with Q2 being the transitory exception.

The overall month was quite soft across a variety of indicators with only wholesale trade missing and due out on Monday but likely to no material effect on GDP. Hours worked fell 0.7% m/m, manufacturing sales volumes fell 1.6% m/m, housing starts fell 9.1% m/m, export volumes slipped by 0.1% m/m and import volumes were up by 2.3% m/m. The rise in import volumes may reveal some strength in some sectors that are more difficult to track. That matters to monthly production-based GDP figures whereas quarterly expenditure-based GDP figures suffered a net drag from overall trade in July.

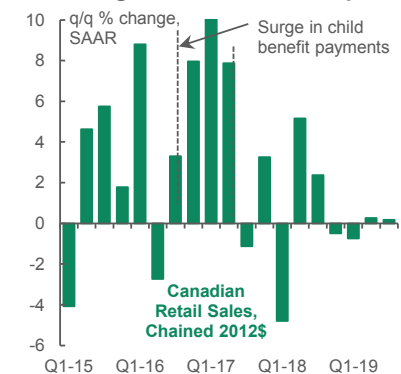
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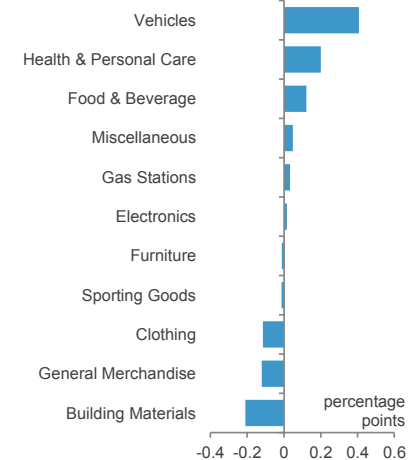
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Retail Sales Weakness After Surge in Child Benefits Spent



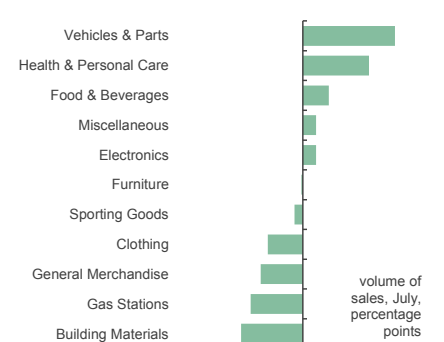
Sources: Scotiabank Economics, Statistics Canada.

Value Weighted Contributions to Canadian Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Volume Weighted Contributions to Canadian Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

By sector, the value of sales was up six of eleven categories with weighted contributions to overall growth in the value of sales shown in chart 2. This was led by autos and parts (1.5%) with a 26.7% weight but entirely due to higher prices, electronics and appliances (0.7% m/m, again, higher prices), health and personal care stores (2.6% again on higher prices), food and beverage stores (0.6%), gas stations (0.3% on higher prices), and 'miscellaneous' (+1.7%). The latter category benefitted from a 14.3% m/m rise in sales at cannabis stores where the value of recently legalized sales just crossed C\$100 million.

By sector, the volume of sales increased in four main sectors with weighted contributions to overall sale volume growth shown in chart 3. These categories didn't necessarily align with the sectors that drove the value of sales higher in the prior chart. The leaders were vehicles and parts (+1.2% m/m), electronics and appliance stores (1.5%) and health care and personal stores (+2.5%) and food and beverage stores (+0.2%). The laggards were building material and garden equipment stores (-3.2% m/m), clothing and accessories (-1.9%), gas stations (-1.5%), sporting goods and hobby stores (-1.3%) and general merchandise (-1.1%) and furniture and home furnishings (-0.1% m/m).

By province, the value of sales was weighed down by declines in BC (-0.8% m/m), Quebec (-0.4% m/m) and New Brunswick (-2.7% m/m). Sales were up the most in Ontario (1.2% m/m) including Toronto (1.1%), Newfoundland and Labrador (1.1%), Saskatchewan (0.9%), Alberta (0.7%) and Manitoba (0.6%). Sales were little changed in NS and PEI.

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