

## Canadian Consumers End A Decent Quarter On A Softer Note

- Retail sales ended Q3 on a soft note...
- ...but the quarter was still the best in a year
- There was poor breadth to September sales
- One ok quarter doesn't save the year for retailers...
- ...who critically depend upon a strong holiday season
- September GDP is tracking no growth...
- ...and Q3 GDP is tracking 1.1%
- No growth is baked in for Q4 retail sales volumes or GDP

### Retail sales, total / ex-autos, m/m % change, September:

Actual: -0.1 / 0.2

Scotia: 0.3 / 0.4

Consensus: -0.3 / -0.1

Prior: -0.1 / -0.2

Canadian retailers ended the third quarter on a fairly soft note but nevertheless had their best quarter since the third quarter of last year. CAD rallied and short-term rates increased probably more so due to positioning than anything terribly upbeat to be gleaned from the figures. Markets may have been positioned for a worse reading even though this was not a good report. CAD initially appreciated to the USD but then sold off to be flat. The two year Canada yield cheapened by about 3bps. I don't see any fundamental reason for this reaction.

**Sales volumes fell by 0.1% m/m and breadth was poor.** Nine of eleven categories either fell or came in largely flat in terms of their weighted contributions to growth in total retail sales volumes. See chart 1. The only stand-out contributors to growth came from mild weighted gains in building materials and food/beverage sales.

Including revisions, that drops retail sales volume growth to 1.85% q/q SAAR in Q3 compared to 2.0% tracking going into the numbers. **Though mild, that was the best quarter for sales volumes since 2018Q3 (chart 2).** The caveat, however, is that based upon the way Q3 ended and the Q3 average, **Q4 has no material growth baked in for retail sales volumes** (0.2% q/q SAAR). That means there is no advantage built into the transitional math from Q3 and so a strong holiday season is needed for retailers in order to post a repeat of the Q3 gain.

Nevertheless, **on a year-to-date basis over the same period last year, sales are up by only 0.7% ytd/ytd.** One quarter doesn't save the year for many retailers who will need a strong Q4 in order to stick around in January.

**Breadth was fairly soft in terms of the change in the dollar value of sales** that combined volumes with price effects. In dollar terms, sales were down at auto dealers and parts (-1.0% m/m) because of declines at new car dealers (-1.9%) and 'other' vehicle dealers like off-terrain vehicles (-0.8%), furniture and

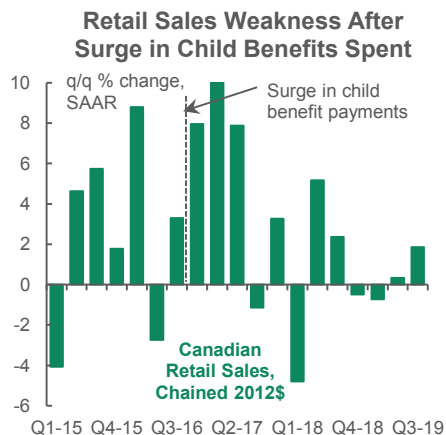
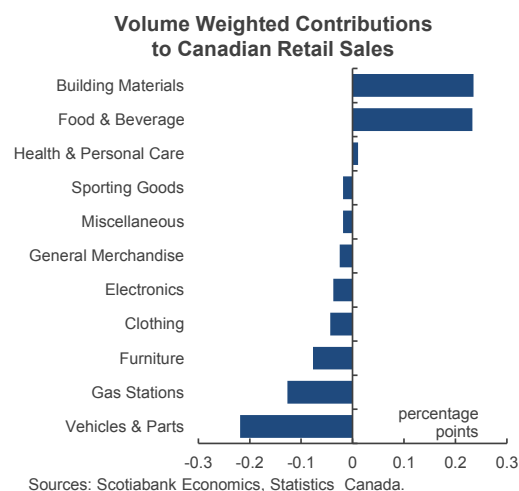
### CONTACTS

Derek Holt, VP & Head of Capital Markets Economics

416.863.7707

Scotiabank Economics

derek.holt@scotiabank.com



furnishings (-1.7%), electronics/appliances (-1.9%), gas stations (-2.3%) and sporting goods/hobby (-0.5%). Therefore big ticket categories were soft. An exception is that building materials and garden equipment/supply stores registered a solid 3.3% m/m sales gain. Food and beverage spending was up 1.2% m/m, health and personal care up 0.3%, and sales at clothing and accessories stores were up 0.6%. Pot sales went up in smoke (-2.4% m/m).

**The economy probably ended Q3 on a weak note overall marked by no GDP growth during September.** Everything came up softly with just wholesale trade left to consider on Monday. Retail sales volumes were down 0.1% m/m, hours worked fell 0.3% m/m, manufacturing shipment volumes fell 0.7% and housing starts fell 2.2%. Export volumes fell by 2.1% m/m and import volumes fell by 1.6%. The weakness in imports therefore helps flag softness across the domestic economy that isn't captured by the other variables.

**I'm getting Q3 GDP growth of 1.1% q/q SAAR** based upon monthly GDP estimates. Based on the September GDP hand-off and the Q3 average, **there is no GDP growth (0.2% q/q SAAR) baked in for Q4** before we begin to get the monthly Q4 readings.

Recall that the BoC had forecast GDP growth of 1.3% GDP SAAR in each of Q3 and in Q4. That was using expenditure based GDP whereas my tracking above uses the monthly GDP figures. Among the differences can be how the inventory and import leakage effects influence expenditure-based GDP that considers how higher GDP was achieved by factoring in inventory swings and import leakage effects. There can be differences in the two sets of GDP estimates.

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