

Choppy Canadian Data, With Caveats

- August’s retail rebound ground to a halt in September...
- ...and so did manufacturing...
- ...as choppy data continues to hang over trend rebounds...
- ...at least partly reflecting shifts to services...
- ...and supply chain problems
- BoC implications

CDN retail sales, m/m % change, SA, August :

Actual: 2.1 / 2.8

Scotia: 2.1 / 2.4

Consensus: 2.0 / 2.6

Prior: -0.6 / -1.0

September ‘flash’ guidance: -1.9

Canadian retail sales disappointed in the preliminary guidance for September. That is the new information in the release and it dampens some of the enthusiasm around the rebound that occurred in August alongside disappointing advance guidance on manufacturing sales during September. There are nevertheless important caveats that are worth flagging.

Statistics Canada guided that September’s preliminary ‘flash’ estimate for retail sales was down 1.9% m/m which reverses almost all of the gain in August that landed in line with advance estimates. While its move toward providing ‘flash’ readings based on partial samples (54% in this case, versus the full ~90% response rate in the final estimate) has been welcomed, the agency doesn’t provide any details or guidance on the drivers. Our tracking of auto sales units suggests that played a major role, but with limited confidence in how this translates into autos within retail sales.

A further point of softness lies in the fact that about one-third of the gain in the value of retail sales during August was due to higher prices, as volumes were up by 1.4% m/m. If you’ve seen the CPI figures or even if you bought anything in August, then you’d probably have a good understanding of this point!

Still, we definitely saw a powerful rebound in Q3, although it sets up more questions into Q4. Sales in dollar terms were up by about +11% in q/q in annualized terms during Q3. That incorporates the preliminary September flash guidance. Sales in volume terms were up by about +6% q/q SAAR which incorporates the September flash guidance by assuming that volumes fell by a little more than the value did due to the partial offset from higher prices in September’s CPI report. Chart 1 shows the volume estimates compared to history.

CONTACTS

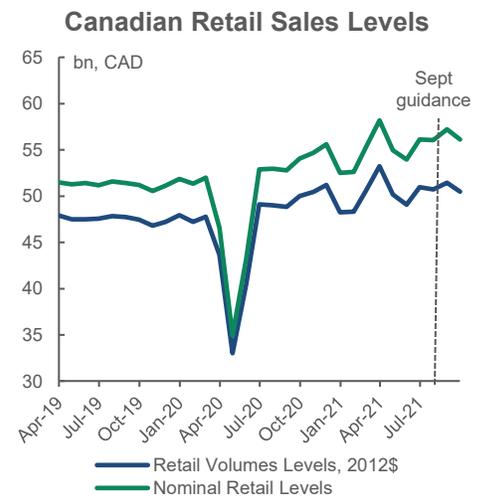
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

The way the quarter ended nevertheless bakes in a weak starting point for Q4. We're going to need a strong holiday season to keep in the black for Q4 retail sales and there is no shortage of arguments around the risks in both directions. Based on the Q3 totals and the way the quarter ended, Q4 has a baked in decline of 2.4% q/q SAAR in sales dollars and a nearly 5% drop in sales volumes. Clearly we're still in the midst of taking down choppy data.

Chart 2 shows the trend in the levels of sales dollars and volumes during the pandemic.

Chart 3 shows the breakdown of the change in retail sales volumes during August in terms of weighted contributions to the overall percentage gain of 2.1%.

Chart 4 shows the cumulative change in the value of retail sales since the pandemic first struck.

BANK OF CANADA IMPLICATIONS

Of course it's a stretch to say that one or two releases for a segment of the economy matter much to a central bank crafting its broad policy stance. Still, we can use it as an opportunity to reinforce a narrative.

Choppy data will keep the BoC guarded toward the near-term. I expect them to shift to the reinvestment phase of the QE program next Wednesday, but for Governor Macklem to emphasize choppiness and ongoing slack in the economy while leaning—in nuanced fashion—against early hike pricing that I still think has gone too far. If he doesn't, the front-end is likely to get hit harder. Their forecasts are still likely to lean toward closure of spare capacity—and hence rate hikes—along a similar timeline to what they said in July.

CAVEATS

A rather large caveat is that 71% of the Canadian economy is represented by services. That matters because retail sales sharply underrepresent services spending and don't include major types that are probably the biggest beneficiaries of ending lockdowns. Unfortunately we have far fewer readings for the services sector. We can point to things like Open Table restaurant reservations and mobility gauges, but they are not seasonally adjusted which matters at the start of a new school year and end of summer transitions, and so we're left monitoring old economy variables like this one until GDP arrives at the end of the data march. What we therefore can't tell is the extent to which spending shifted from goods toward services in September.

Second is the ongoing debate over supply chain effects versus demand signals. I wish Statcan would provide a bit more colour on their flash guidance. They say the drop in manufacturing was "mostly" due to transportation, in which case supply chain effects are probably the culprit. It would be helpful if they'd provide sales ex-trans guidance. In any event, supply chain effects continue to mess things up. That's also likely to be the case for retail sales as product shortages in categories like autos, electronics etc and long delivery delays are holding back spending.

Chart 3

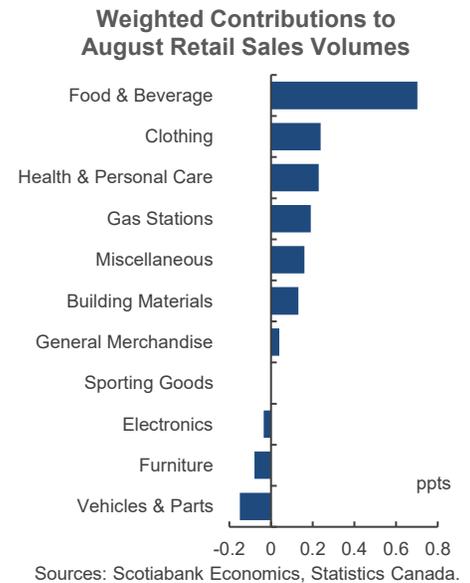
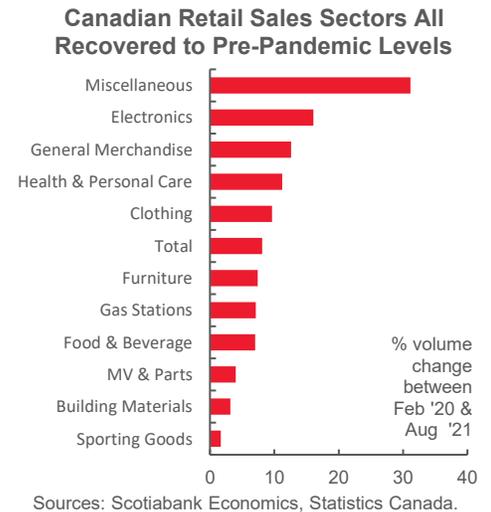


Chart 4



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