

Canadian Retail Sales Surprise Higher; GDP Still Tracking Softly

- Retail sales surprised higher with a solid gain in October...
- ...and a milder than guided contraction in September
- Q3 retail sales posted impressive growth...
- ...but Q4 is tracking no growth so far
- GDP growth is tentatively tracking well below the BoC's Q3 forecast

CDN retail sales, m/m % change, headline / ex-autos, SA, Sept:

Actual: -0.6 / -0.2

Scotia: -1.7 / -1.2

Consensus: -1.7 / -1.0

Prior: 2.1 / 2.8

'Flash' October guidance: +1.0

Global markets have COVID-brain this morning and so this is largely being ignored by Canadian markets, but it's still worth sharing a little bit of Friday cheer on behalf of Canadian retailers. Retail sales posted a nice upside surprise with a strong gain in preliminary guidance for October and a smaller contraction in September than initially guided.

The dollar value of sales was up 1% m/m in October following a drop of -0.6% that wasn't as bad as StatCan had initially guided (-1.7%).

Price effects have to be stripped out. Volumes fell 1.1% m/m in September, so higher prices insulated against some downside to revenues that month. I suspect volumes were up much less than 1% in October as the flash guidance for a 1% nominal rise was probably at least half due to higher prices given CPI.

Still, on a trend basis, retail sales volumes were up 6.3% q/q SAAR in Q3 and so far they are tracking flat (+0.3%) in Q4 assuming we should deduct at least half of the guidance for growth in nominal sales during October due to higher prices given what we learned from CPI. We'll need a solid holiday spending season to buoy the rest of Q4

Chart 1 shows the monthly trends in the level of sales in dollar and volume terms, and chart 2 shows the q/q annualized growth rate estimates. The latter chart is obviously distorted by the initial pandemic effects.

Chart 3 shows the breakdown of weighted contributions to September's gain in the volume of sales by sector. There was high breadth to that month's weakness. The 'flash' estimate for October from Statistics Canada does not offer any details, but given we know that auto sales were up last month that's likely to be among the upsidest when we get the fuller details in a month's time.

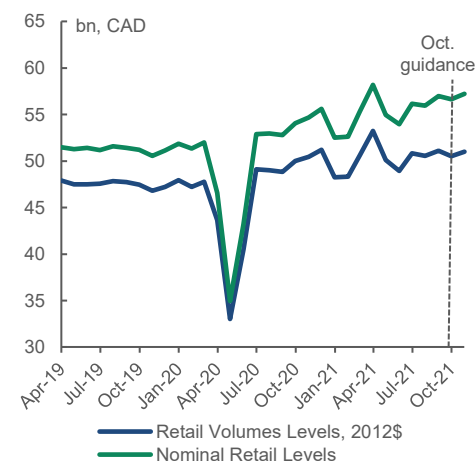
Chart 4 shows the cumulative changes in retail sales volumes by category during the pandemic.

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Chart 1

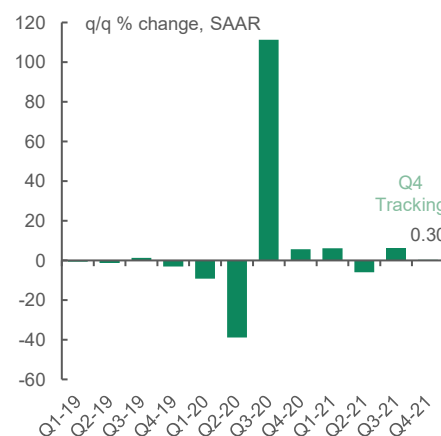
Canadian Retail Sales Levels



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Canadian Real Retail Sales Growth



Sources: Scotiabank Economics, Statistics Canada.

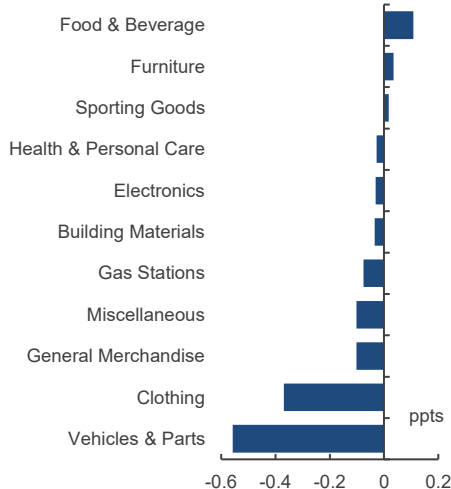
With huge caveats, my GDP regression model is spitting out September GDP at -0.1% m/m and Q3 at +1.6% q/q SAAR. The more sophisticated approach behind Nikita Perevalov's 'nowcast' model is arriving at 1.9% Q3 growth.

Q3 caveats to my approach include that this is using monthly production/income GDP figures, not quarterly expenditure-based GDP which is what the BoC and most of us forecast. Tracking inventory and import leakage effects is difficult. Service sector data hardly exists and mobility readings do not track services GDP well, but we could get an ongoing services lift as an offset to my GDP model which is slanted to the available data that is skewed to the goods sectors. Still, the BoC's 5.5% Q3 is likely out of reach and the BC flooding won't help in subsequent tracking.

With even bigger cautions given so little data and flash guidance, I'm tracking +0.3% for October GDP. Hours worked have been ripping for the past two months with gains of ~1% m/m each month and is skewed toward services, like the rising employed bodies count. Those added hours are doing something somewhere even if outside of the limited high frequency data available so far and that is skewed to the goods sector.

Chart 3

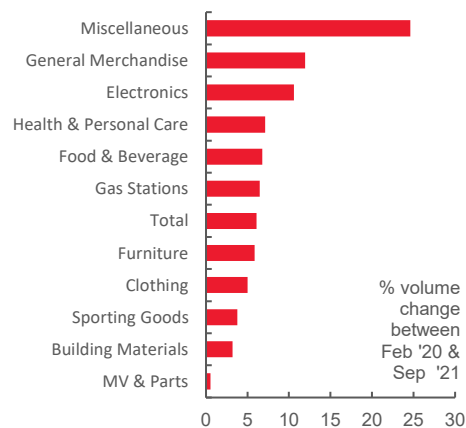
Weighted Contributions to September Retail Sales Volumes



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

Canadian Retail Sales Sectors All Recovered to Pre-Pandemic Levels



Sources: Scotiabank Economics, Statistics Canada.

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