

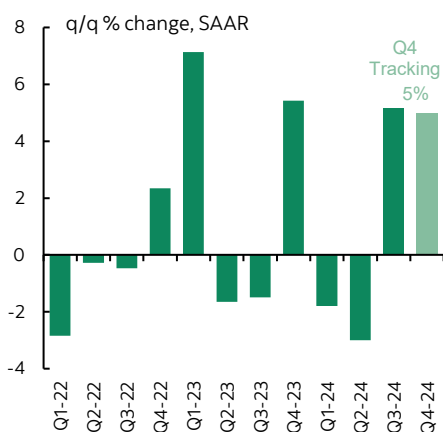
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Chart 1

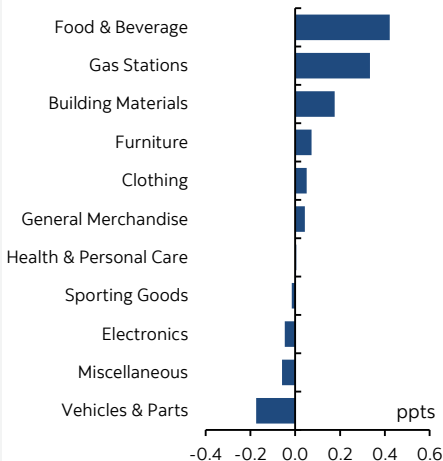
Canadian Real Retail Sales Growth



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Weighted Retailer Contributions to September Real Retail Sales



Sources: Scotiabank Economics, Statistics Canada.

Canadian Retail Sales Are On Fire Into Holidays

- Retail sales volumes are posting fastest back-to-back gains in a decade
- There remains too much negativity toward the consumer...
- ...which counsels caution toward fiscal and monetary easing

Canadian nominal retail sales m/m % SA, September:

Actual: 0.4 / 0.9
 Scotia: 0.5 / na
 Consensus: 0.4 / 0.4
 Prior: 0.4 / -0.8

October 'flash' nominal guidance: 0.8

Canada's consumers are alive and kicking and on track to post the strongest back-to-back quarterly gains in retail sales volumes in a decade (chart 1). The last time we saw 5%+ quarterly annualized gains in sales volumes was over the 2014-15 period.

This fits my narrative that there is too much negativity toward the Canadian consumer and that we need to be careful toward stoking it further with Ford Bucks, Trudeau Bucks, GST/HST cuts and rate cuts. Individual sectors and firms may be challenged, but don't treat them as representative of the overall health of the consumer.

September's retail sales were strong and momentum continued in October. Nominal sales were up 0.4% m/m SA in September as discounting drove a faster 0.8% rise in sales volumes. Wonderful. Retailers are rising to the disinflationary occasion and to the delight of consumers as retailers trade off margins versus volume expansion. Chart 2 shows the weighted contributions to sales volume growth by category.

October's flash nominal sales estimate is a gain of 0.7% m/m SA. That likely translates into a solid volume gain based on CPI and its components.

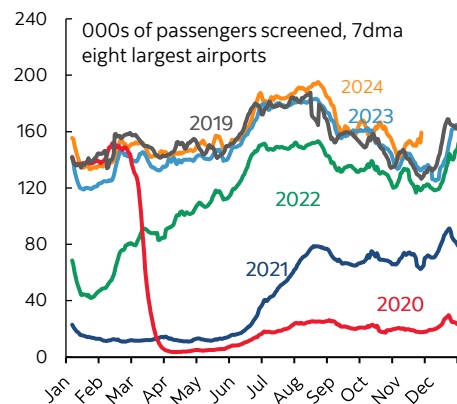
Overall, this gives 5.2% q/q at a seasonally adjusted and annualized rate for Q3 growth in sales volumes. Based on Q3, the way Q3 ended, and the tentative guidance for the start of Q4, we are tracking another 5% q/q SAAR gain in sales volumes in Q4.

As for the consumer beyond retail sales and hence services, several indicators are suggesting it is performing well such as strong flight volumes (chart 3).

Going forward there will be the lagging spending effects of a surge in immigration. Higher household leverage in Canada than elsewhere will shift to being a friend as the pass through effects of rate cuts are bigger than elsewhere. There is a massive amount of pent-up narrow savings, cash balances, and hoarded net worth across all income quintiles. There is significant pent-up demand for housing and all the stuff that goes with it. Wage growth is strong as aggressive settlements continue to push through in a much more unionized Canadian workforce than stateside. Let's keep our fingers crossed on trade risks.

Chart 3

Canadians Flying A lot !



Sources: Scotiabank Economics, CATSA.

On the back of these numbers, I'm getting 0.1% m/m SA for September GDP next week. October GDP may be tracking a solid gain as well which would be a nice set up for Q4.

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