December 23, 2015

TD Economics

Data Release: Canadian retail sales join the parade of soft fourth quarter data

- Canadian retail sales eked out a modest gain in October, rising 0.1% month-on-month after falling 0.5% in September. The number was well below market expectations of a 0.4% gain. What's worse, the gains were all due to price increases – in volume terms sales were down by 0.3%.
- In value terms, motor vehicle and parts dealers saw sales rise 0.4%, reversing September's 0.3% decline on the strength of used car dealers. Furniture stores also gained on the month, up 0.5%. Weakness was seen in several categories as well, notably food and beverage stores (-1.2%), and electronics and appliance stores (-2.1%).
- With gains coming largely in price terms and from the motor vehicle sector, core retail sales (which exclude gasoline sales and motor vehicles) were flat on the month, reflecting lackluster sales across the remaining retail categories.
- Looking across the country, sales were up in four provinces. Ontario led the way, with sales up 0.5%. In contrast, Alberta saw a third straight monthly decline, down -0.8% in October.

Key Implications

- It increasingly appears that for the Canadian economy, 2015 will be 'in with a whimper, out with a whimper'. After coming back to life in the third quarter, all indications are that the final quarter of the year is likely to record growth only barely in positive territory. Today also saw the release of October's GDP data, which showed that the Canadian economy failed to expand meaningfully on the month. As a result, we see clear downside risk to our current tracking of 0.9% annualized growth for Q4.
- Retail sales have been buffeted by a number of factors this year – low gasoline prices have exerted downward pressure on nominal sales, while government cheques have helped support growth. The underlying trend has been softer growth relative to historic patterns. This is expected to continue as credit-driven consumption growth is likely to be a thing of the past in light of record high consumer debt levels.
- Looking ahead, we expect to see a return to steady, if modest, growth in 2016 and 2017, led by exports. As a result, we anticipate that the Bank of Canada will maintain its policy rate at 0.5% for another two years, consistent with a slow uptake of economic slack. However, the outlook is dependent on external developments translating into export demand, and near term momentum is nearly nonexistent. As a result, the risks are skewed to the downside and we cannot rule out further easing should we see continued material disappointment in Canadian economic growth.

Brian DePratto, Economist
416-944-5069

@TD_Economics