

Canada: Retail spending unlikely to contribute to growth in Q1

By Kyle Dahms

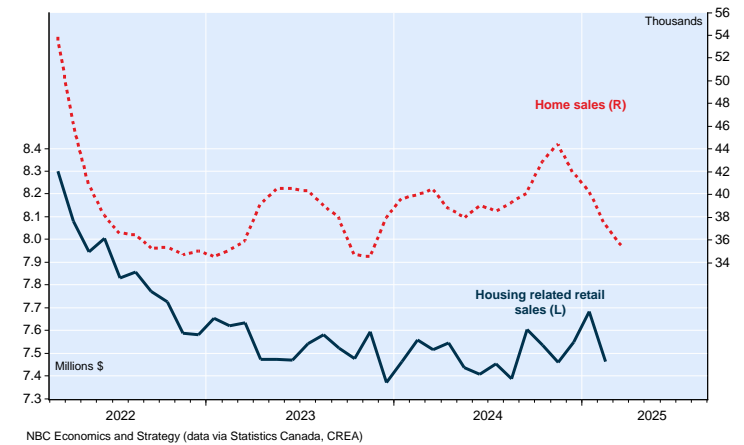
Highlights:

- Canadian **retail sales** declined 0.4% in February, in-line with the 0.4% drawdown expected by consensus. The previous month was unrevised at -0.6%.
- Sales of motor vehicles and parts were down in the month, decreasing 2.6%.
- Excluding autos, spending rose by 0.5%, led by gains in food/beverage retailers (2.8%), general merchandise (+1.2%), and sporting goods/hobbies/misc. (+1.0%), among others. Sales regressed for furniture/electronics/appliances (-2.9%), building materials/garden supplies (-2.8%) and clothing/accessories/shoes (-2.7%). In total, sales were down in 4 of the 9 categories covered.
- On a regional basis, sales were down in 7 of the 10 provinces, with the largest losses being recorded in Quebec (-0.9%), British Columbia (-0.6%) and Alberta (-0.5%). Ontario was essentially flat while Manitoba (+1.8%) was up in the month.
- In real terms, retail sales fell by 0.4% across Canada in February.
- Finally, Statistics Canada's advance estimate for March showed that nominal sales increased 0.7%.

The decline in February's retail sales report was in line with expectations and compounded on a negative print in the previous month (-0.6%). Recall that some spending had been frontloaded in prior months to benefit from the GST/HST holiday which ended partway through February. Moreover, there was a continued decrease in auto sales in February due to the curtailing of government subsidies for electric vehicles (federal phaseout and a Quebec pause). As such, excluding autos, retail sales were up in the month, bettering consensus expectations. True, but there was a weakness in housing related expenses which declined at their fastest rate in over a year (second largest decline since 2021). While there was a pickup in home sales at the end of 2024, recent data has deteriorated, which could continue to compromise housing related retail spending in the coming months (see top chart). On a provincial level, it was surprising to see in Ontario a flat February following a decline in January as the province had been sending out stimulus checks to taxpayers. The preliminary estimate for nominal retail spending in March suggests a return to spending (+0.7%, +0.8% in real terms using goods CPI as a deflator). Looking at the quarterly perspective, after having progressed 5.6% in the last quarter of 2024, real retail sales are on track to be essentially flat in the first quarter of the year, after three months of data (see bottom chart). The second quarter does not bode well either as consumer and business confidence have collapsed in the face of uncertainty and population growth may increase at a tepid pace. If the labour market maintains a negative trend and trade tensions continue with our southern neighbor, weak consumption appears inevitable at this stage.

Canada: Housing related spending following home sales

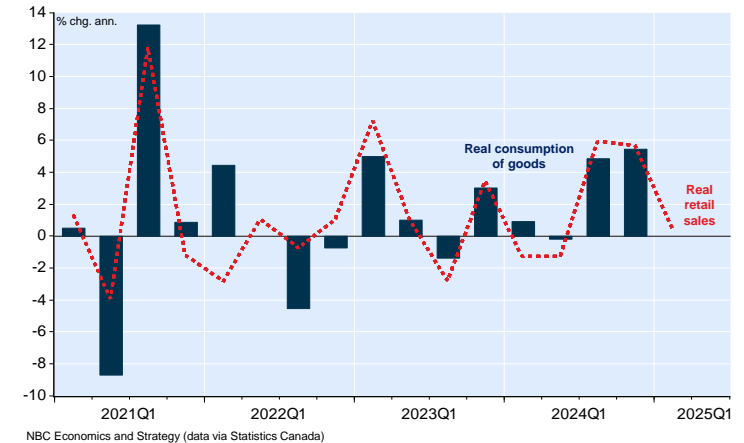
CREA home sales and housing related nominal retail sales



NBC Economics and Strategy (data via Statistics Canada, CREA)

Canada: Retail sales could be neutral to growth in Q1

Real goods consumption and real retail sales (includes March preliminary)



NBC Economics and Strategy (data via Statistics Canada)



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