

Retail sales driven by autos in July

Nominal retail sales for July

Latest number: +0.4% (actual) +0.2% (expected)

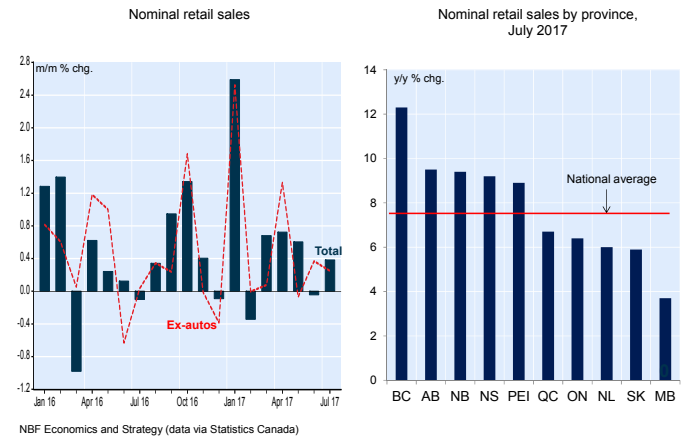
Excluding motor vehicles & parts

Latest number: +0.2% (actual) +0.4% (expected)

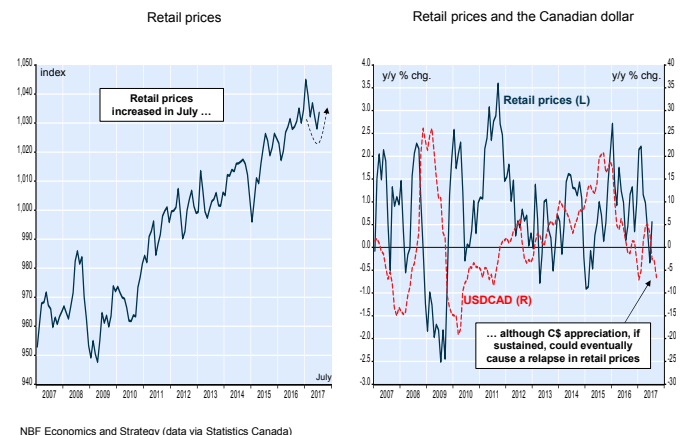
FACTS: Canada's retail sales rose a consensus-topping 0.4% in July. Sales were up in six of the 11 major subsectors, including a 0.8% increase for autos. Excluding autos, sales rose just 0.2%, lower than the +0.4% print expected by consensus. Gains for sellers of clothing, food/beverage, health/personal care products, general merchandise and miscellaneous items, more than offset declines for gasoline, building materials, electronics, furniture/home furnishings, and sporting goods. Most provinces saw higher sales in July. On a year-on-year basis, retail sales were up 7.8% nationally in July but BC (+12.3%) and Alberta (+9.5%) were above average, while Quebec (+6.7%) and Ontario (+6.4%) were below the national average (top chart). In real terms, Canada's retail spending was down 0.2% m/m in July.

OPINION: Headline retail sales came in better than expected due to the surprise from autos — consensus had expected weakness in that category. While some may be concerned about soft ex-auto sales during July, it's worth mentioning the latter came after solid gains in earlier months — so much so that ex-auto sales are still up a solid 6.5% year-on-year. Moreover, discretionary sales, i.e. retail spending excluding gasoline, groceries, and health/personal care products, were up a solid 0.4% during the month. In other words, Canadian consumers remain in decent shape, well supported by a solid labour market, low interest rates and easy access to credit. The Bank of Canada will welcome the increase in retail prices (+0.6% in July) after declines in four of the prior five months. Perhaps retail competition is easing as the central bank had expected. But given the recent surge of the Canadian dollar, one cannot rule out a relapse of prices in the retail space as imports become cheaper over the coming months (middle chart). The drop in retail volumes in July will weigh on Q3. Assuming no change in August and September, real retail sales are tracking growth of just 1.7% annualized in the third quarter. That's a sharp deceleration from the prior quarter's pace of consumption growth — albeit not unexpected after unsustainable gains in the prior two quarters — and consistent with our view that Canadian real GDP growth softened in Q3 to just under 2% annualized after a blistering first half of 2017 (bottom chart).

Canada: July consumption driven by autos



Canada: Retail prices bounced back in July



Canada: Moderation in consumption spending growth in Q3



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