

Canada: Housing slowdown weighs on retail sales in November

By Jocelyn Paquet

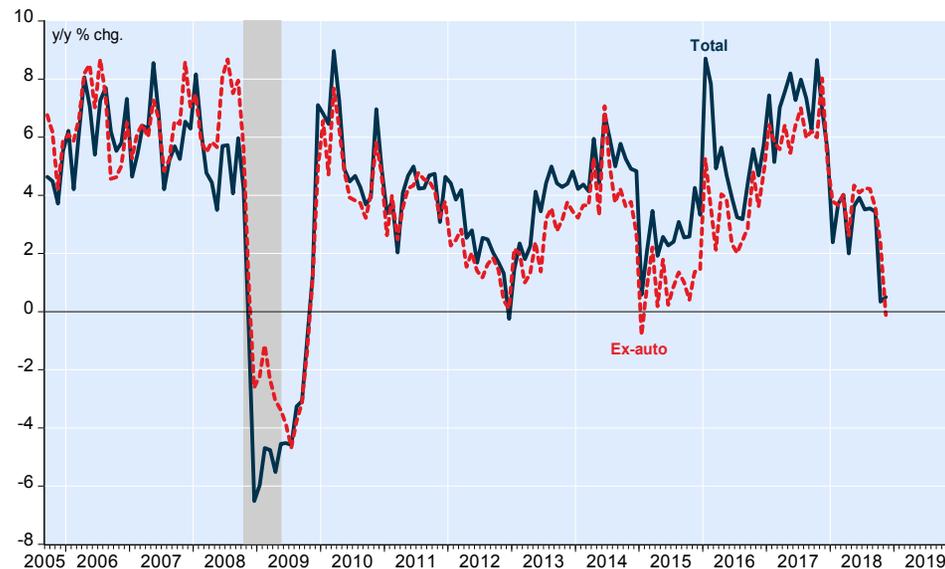
November's poor retail numbers could hardly be described as a surprise considering the sharp drop in gasoline prices in the month and the weakness in auto sales. Still, the broad-based nature of the slump is a cause for concern. Sales did indeed retrace at gasoline stations and auto dealers, but they also dropped in 4 other categories, representing 37.5% of total outlays. What's more, retail volumes fell for the fifth time in the last six months, perhaps a sign that Canadian consumers may be negatively impacted by higher interest rates. For the month of November, declining volumes could translate into a negative contribution to GDP, which is scheduled for release next Thursday. Looking at the data year on year, nominal retail spending advanced just 0.5% in November, the third smallest gain since the recession (see chart on the left). Judging from the sector distribution, the slowdown in Canada's housing sector was a big factor explaining that disappointing 12-month print. To be sure, the three retail categories most closely associated with housing – furniture (-3.5%), electronics/appliances (-7.6%) and building materials (-2.3%) – all saw sales decline in the 12 months to November (see chart on the right). These statistics reinforce our view that the Bank of Canada should wait until at least the second half of the year before contemplating further rate hikes.

HIGHLIGHTS:

- Canadian retail sales declined 0.9% m/m in nominal terms in November, worse than the -0.6% reading expected by economists.
- The prior month's result was revised from +0.3% to +0.2%.
- In November, sales were down in 6 of the 11 broad categories, including motor vehicles/parts (-1.8%), food/beverages (-0.9%) and gasoline stations (-5.0%, the steepest monthly decline since January 2015).
- In contrast, consumer spending increased in the electronics/appliances (+3.3%) category as well as at general merchandise stores (+1.7%).
- Excluding auto dealers, sales shrank 0.6%, two ticks less than consensus expectations.
- Eight of the ten provinces saw a decrease in retail spending in November, with Ontario (-1.6%) and Quebec (-1.5%) among the worst performers.
- With the price effect removed, retail sales slid 0.4% for a fifth retreat in the last 6 months.

Canada: Retail spending fades in the 12 months to November

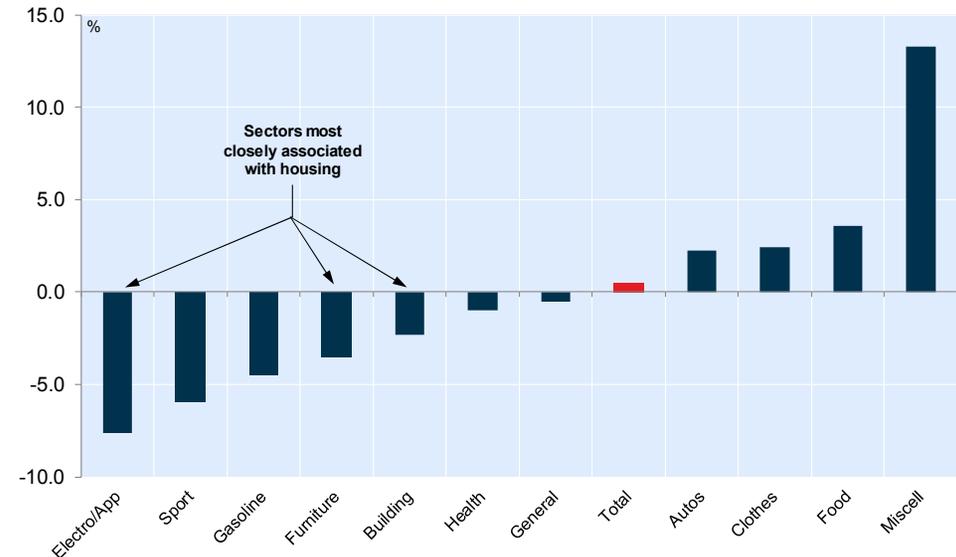
Nominal retail sales. Last observation: November 2018



NBF Economics and Strategy (data via Statistics Canada)

Canada: Housing sector slowdown impacts consumption

12-month change in retail sales by sector



NBF Economics and Strategy (data via Statistics Canada)

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