Consumers pinching pennies, but might be taking a more miserly turn

20 June 2025

Statistics Canada reported that retail sales rose by 0.3% MoM in April and provided a preliminary estimate of a 1.1% drop in May.

Leading the gains in April were sales at motor vehicle and parts dealers, sporting goods and miscellaneous, and furniture, electronics and appliance retailers. Partially offsetting was a big drop in sales at gasoline stations and weakness at clothing retailers.

The removal of the consumer carbon levy on 1 April contributed to a 2.7% MoM drop in sales at gasoline service stations.

On a 3M moving average basis, retail sales rose by 0.2% (chart 1): the largest positive contributions were from motor vehicles, and food and beverages. The largest negative contribution came from gasoline stations.

In real terms, retail sales rose by 0.5% MoM, implying that retail prices (on a chained basis) were down 0.2% MoM.

Charts 2, 3, and 4 show short term momentum in retail sales, real retail sales, and retail prices. With the projected MoM decline in May, the short-term momentum in the current dollar retail sales has pretty much stalled.

Looking at the real and price components of the slowdown in total sales, we see that real retail sales continued to show some momentum in April, though the pace of growth has slowed markedly since late 2024. This suggests that consumers are becoming less spendthrift — pinching pennies but not turning miserly (I place a caveat here, to be explained).

Retail price momentum has slowed sharply, rising at an annualized rate of just 1.0% in April. This, to a great extent, reflects the removal of the consumer carbon levy on gasoline prices in early April. We would highlight, however, that the service station price index has declined by over 8% over the past three months. Hence, the easing of energy costs was not just a carbon tax story.

Chart 4 brings the short-term momentum stories together. It shows that the slowdown in retail sales was a combination of slowing momentum in real retail sales and the rapid cooling of retail price momentum.

Now, before assuming that price pressures are no longer a worry, Statistics Canada reported the results of a survey showing that 36% of retailers were impacted by trade tensions, with the most common impacts reported to be "*price increases, change in demand for product and supply chain disruptions*." Hence, supply side challenges linked to the US trade policy volatility linger. One can't ignore the potential price effects of supply side developments.

It is not yet clear that price pressures on retailers are have fully passed through to consumers. There are, however, signs that underlying price pressures remain elevated. Chart 6 shows that most of the slowdown in retail price momentum in recent months has been due to a deceleration in prices for motor vehicles and gas from 10.6% (3Mo3M annualized) in January to -1.3% in April — mostly linked to the decline in the service station price index.

There has been a modest slowdown in short-term core retail price (excluding autos and gasoline) momentum, though it remains close to 3%.

Chart 7 shows that core retail prices were up 2.5% YoY in April. This is down from 2.8% in February, but core retail price inflation had been steadily rising through 2024 and early 2025, helping explain why the Bank of Canada retains some concerns about inflation.

What is missing

There is something missing here.

Usually, I would give some projection of real retail sales and retail prices for May. This would normally be possible because CPI reports are typically released before retail sales.

That was not the case this month, with the May CPI report not due to be released until 24 June.

The CPI report provides data on goods prices, which can be used to provide an estimate for the retail price index in a particular month. This together with the advance estimate for retail sales provided by Statistics Canada would allow us to give a projection for real retail sales. This would allow for a breakdown of how much of the projected 1.1% MoM drop in retail sales in May between price effects and real effects. Hence, we can't really say just yet whether consumers are just more aggressively pinching pennies, or if there has been a shift toward more miserly spending behaviours.

Nonetheless, despite the missing details, the May retail sales numbers highlight the risk of a further slowing in consumer spending momentum and reinforces the headwinds to the Canadian economy toward mid-year.

Odds of two 25bp rate cuts this year increase

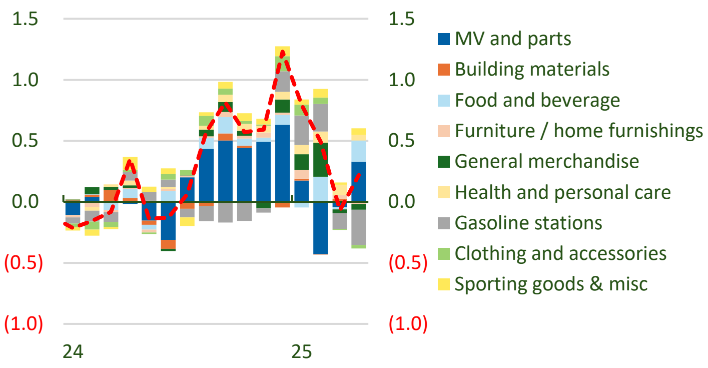
This won't tip the balance for the Bank of Canada in the near term necessarily, but it does suggest that the Bank will likely cut interest rates again during H2.

Markets reacted to today's news by boosting the probability of Bank of Canada rate cuts. Not dramatically mind you, but there was notable movement, particularly toward year end. The market had been well priced for one rate cut during H2, but the odds of a second 25bp rate cut have increased. Pricing is nowhere near as extreme as it was following Trump47's Liberation Day tariffs. The news also added modestly to the downward pressure on the Canadian dollar.

Trade balances

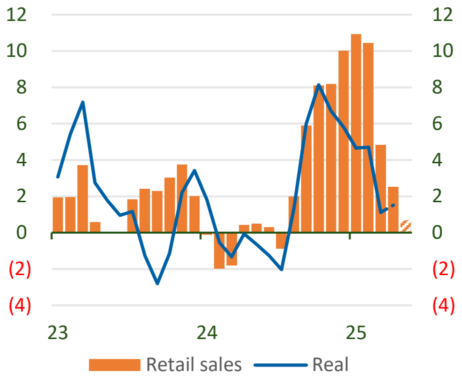
20 June 2025

1. Retail sales: contributions
(ppt, %MoM, 3M ma)



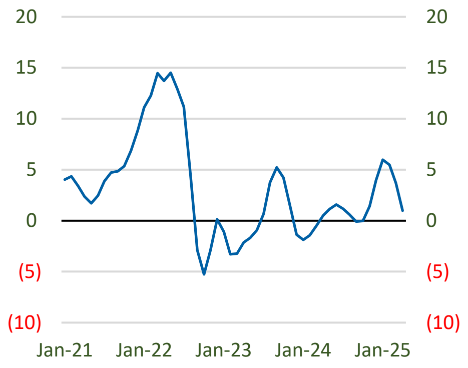
Source: Macrobond, Statistics Canada

2. Retail sales
(% 3Mo3M ann.)



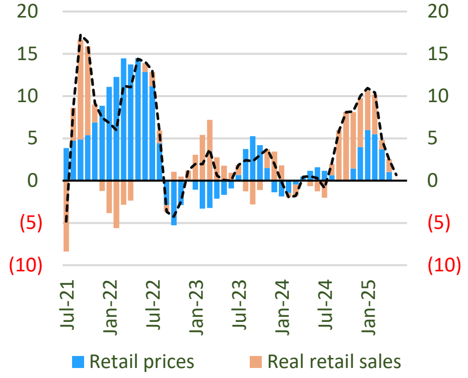
Source: Macrobond, Statistics Canada

3. Retail prices
(% 3Mo3M ann.)



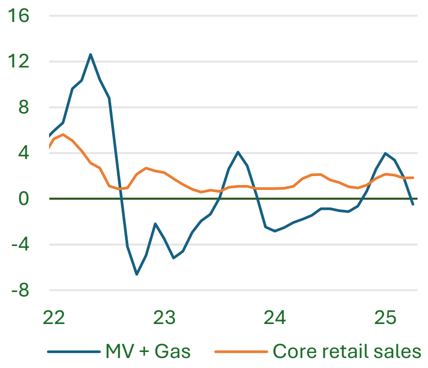
Source: Macrobond, Statistics Canada

4. Retail sales contributions
(% 3Mo3M ann.)



Source: Macrobond, Statistics Canada

5. Retail price momentum
(% 3Mo3M ann.)

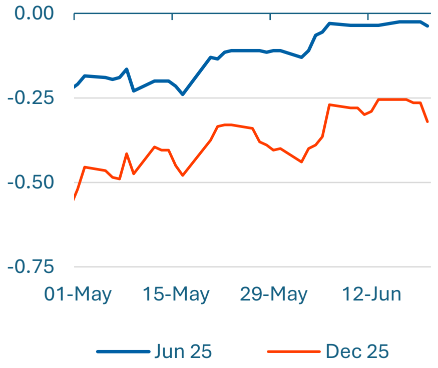


Source: Macrobond, Statistics Canada

6. Core retail prices
(% YoY)

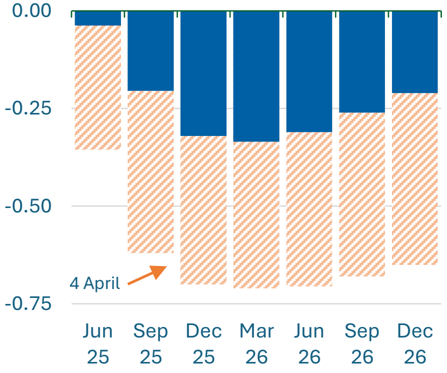
Source: Macrobond, Statistics Canada

7. Bank of Canada CORRA futures
(policy rate - implied rate, %)



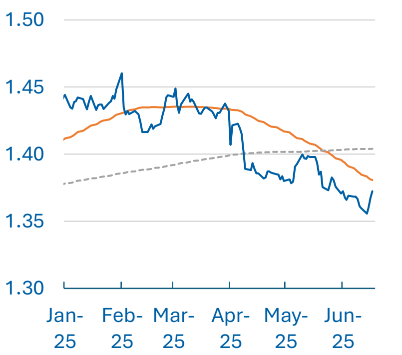
Source: Macrobond Toronto Stock Exchange

8. Bank of Canada CORRA futures
(bp implied futures rate - CORRA)



Source: Macrobond Toronto Stock Exchange

9. Canadian dollar
(USD/CAD)



Source: Macrobond

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