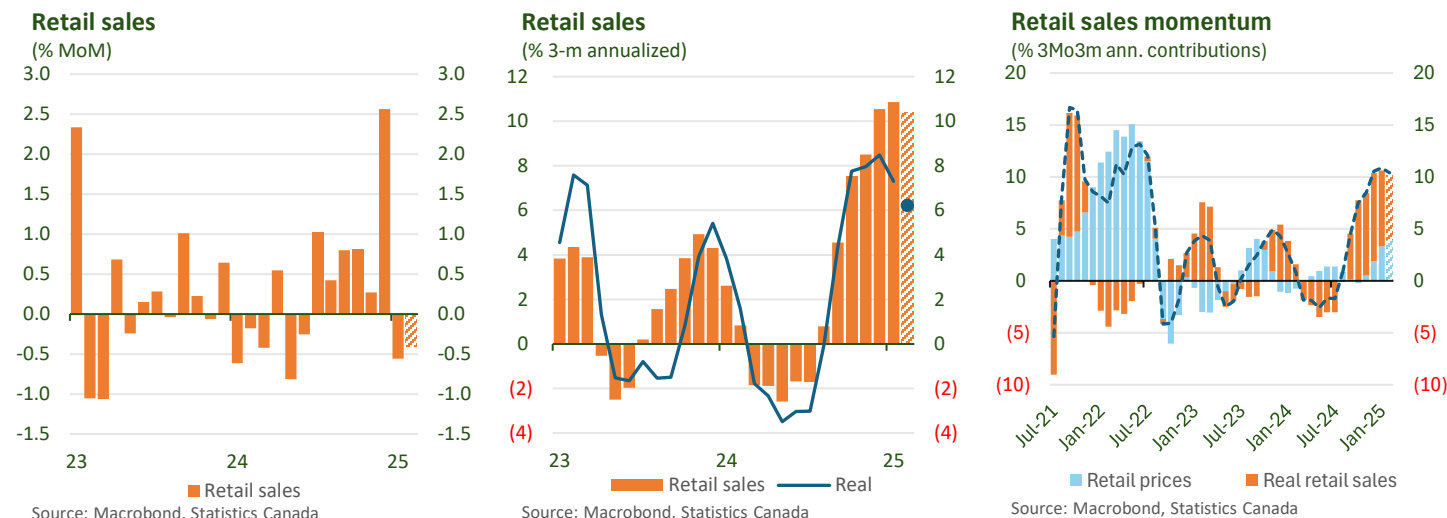


## Retail sales: Signs that momentum is slowing, price pressures firming

21 March 2025



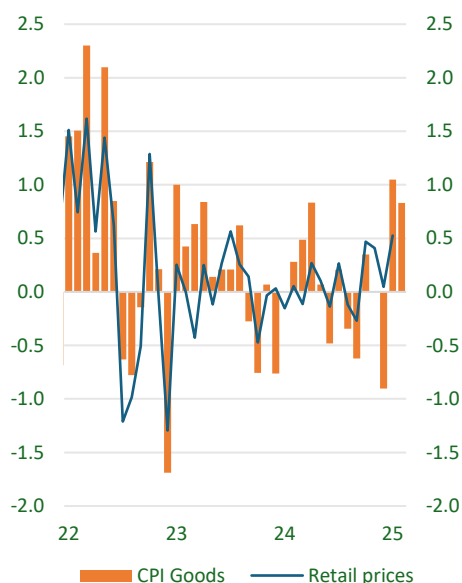
Retail sales were reported down 0.6% MoM in January. In real terms, retail sales were reported down 1.1% MoM. Even my math skills allow me to figure out that retail prices were up 0.5% MoM. Statistics Canada also announced an advance estimate that retail sales likely declined by 0.4% MoM in February. We estimate that retail prices likely rose by 0.4% MoM in February, which pegs real retail sales as likely to decline by 0.8% MoM.

Two negative months in retail sales is not a great sign, but they also come after the blowout December reading. In general, retail sales (nominal and real) had some pretty good momentum into year end. On a 3-m annualized basis, nominal retail sales were running at a more than 10% clip. After two straight monthly declines this narrative is taking on some water even though short-term momentum remains above 10% (the last observation in the second chart). The two negative retail sales prints to start 2025 suggests that short-term momentum will slow sharply soon. In fact, we think that real retail sales momentum is already slowing. With our projected 0.8% MoM decline in real retail sales in February, we see short-term momentum slowing to an annualized pace of just over 6%.

Further slowing in retail sales momentum is likely owing to the heightened uncertainty about US trade policy that has already led to a spike in economic uncertainty in Canada. Hence, retail sales momentum was already set to slow after the strong performance into year end 2024, and the risk are tilted to the downside due to tariff-linked uncertainty. The last chart shows the contributions to short-term retail sales momentum from real retail sales and retail prices. Note that retail prices have been playing a more prominent role in the past few months. So, momentum in activity is slowing, as price pressures are firming.

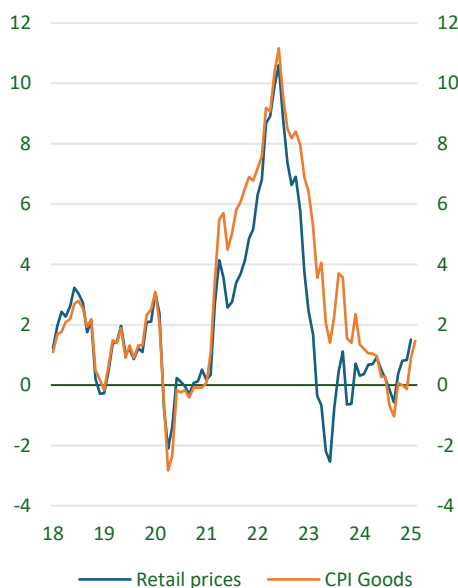
## Some firmness in retail price inflation; watching tariffs, CAD, and carbon tax 21 March 2025

**Retail prices and CPI goods prices**  
(% MoM)



Source: Macrobond, Statistics Canada

**Retail prices and CPI goods prices**  
(% YoY)



Source: Macrobond, Statistics Canada

We look for retail prices to rise by 0.4% MoM in February. To some extent this is because goods prices in the February CPI report posted an increase of 0.8% MoM. The first chart on this page shows that MoM changes in retail prices are aligned with moves in CPI goods prices. Is the link perfect? No, but moves in CPI goods prices do tend to give some idea of how retail prices might change.

As a result, we look for retail prices to rise in February (0.4%), but by slightly less than they did in January (0.5%).

The second chart shows that retail price inflation (% YoY) used to closely track CPI Goods inflation. However, the relationship has become more complicated since 2021.

For example, in early 2023, retail price inflation was close to zero, while CPI goods inflation was at 4% YoY. By June, retail price inflation was running at -2% YoY, while CPI goods inflation was just below 2%. The divergence was used by some to argue that the BoC should not raise the policy rate again because inflation pressures were dissipating more quickly than observed in the CPI data. FYI, the Bank raised its policy rate by 25bp to 4.75% in June 2024 and by 25bp to 5.00% in July. Those were the last rate hikes of the cycle.

At the present time, we are seeing some firmness in retail price and CPI goods inflation. The upward pressure on prices is still moderate, but the risks are tilted to the upside due to the US tariffs, Canadian retaliatory tariffs, and the potential for greater pass-through of Canadian dollar weakness to consumer/retail prices.

Of course nothing is simple. As tariffs and currency effects start to bite, the consumer carbon tax will be removed in April, adding more noise to the data.

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