



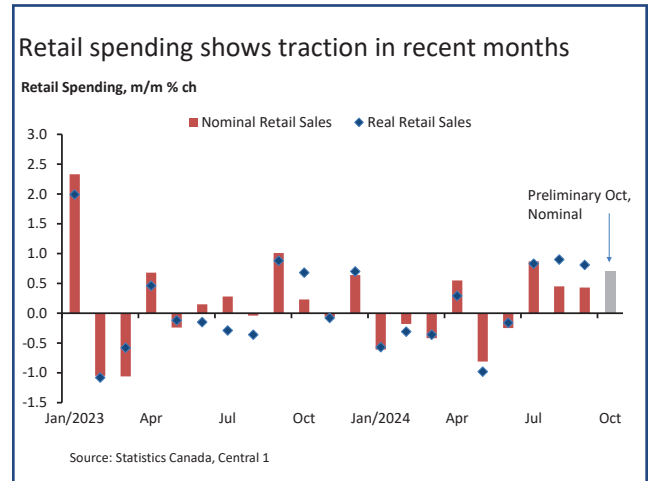
### Consumer demand on the move up with retail spending gaining steam

While the prospects for consumer spending are clouded by the headwinds of a soft economic growth, an incoming “mortgage renewal wall,” and an end to the era of rapid population growth, retail spending rose by a hefty pace in September with an even stronger pace in estimated for October.

Total retail spending increased by 0.4 per cent in September marking a third straight increase with real spending up 0.8 per cent. On a three-month annualized pace, growth was seven per cent with real spending even higher and outpacing population gains. Year-over-year, growth came in at 0.8 per cent. Early preliminary estimates point to a 0.7 per cent increase in October.

September’s increase was driven by mixed performance among stores. Growth was tempered by large drags from the motor vehicle and parts sector which fell 0.7 per cent, and gasoline sales which declined 2.3 per cent. Excluding these components, which provides a better assessment of underlying demand, core retail spending rose 1.4 per cent to rebound from a 0.5 per cent decline in August. At the same time, the largest gain came from food and beverage stores (up 3.3 per cent), particularly for alcohol sales (4.4 per cent). This could reflect a pivot to more home economics rather than other entertainment. General merchandisers recorded a 0.6 per cent increase, with furniture retailers reporting 0.5 per cent higher sales. Clothing retailers reported a 0.3 per cent drop, as shoe sales slumped 5.8 per cent.

Among provinces, retail spending growth was concentrated in the three provinces of Alberta (2.3 per cent), B.C. (0.6 per cent), and Quebec (0.6 per cent). Prince Edward Island recorded robust growth of 1.5 per cent but had minimal impact on top line figures given market size. Ontario sales fell 0.1 per cent, while Manitoba (-0.5 per cent), Saskatchewan (-0.4 per cent), and New Brunswick (-0.7 per cent) recorded the sharpest declines. Year-over-year, growth among large provinces was strongest in Alberta at 3.9 per cent.



The latest retail figures point to ongoing life in the consumer economy that is outpacing population gains, at least recently. While there are ongoing and incoming headwinds, several factors could continue to boost spending in coming quarters. The housing market is showing signs of life as interest rates decline which will feed into home furnishing and renovation spending as it picks up. Meanwhile, the federal government’s recent announcement of the GST holiday on various essential items for two months, alongside a \$250 of “money from the sky” as an April benefit for many households. The government expects this to equate to a \$6.3 billion initiative. The money will go somewhere, and given the modest per household amounts, much of it right back into spending (either retail goods or services) in late 2024/early 2025.

For monetary policy, we can expect heavy fluctuations as GST cuts temporarily reduce inflation, while the fiscal stimulus also adds to demand in early 2025. Higher GDP growth expectations, the bounce back in October inflation to 2 per cent, and other inflation risks from potential U.S. policy should keep the Bank on a 25- basis point cut at its next meeting.

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