



Local Spending Tracker

Summertime slump
July 2023 data update

About the Local Spending Tracker

- The [Local Spending Tracker](#) provides timely monitoring of spending patterns across Canada.
- Unlike other sources, our high-frequency data provide granular insights for 35 locations, using a robust methodology that accounts for seasonality, inflation and population changes.
- Our tracker's leading indicators are highly correlated with official consumer spending statistics, but are available one month earlier, at a higher frequency and for more cities.



Message from the Chief Economist

Last month the BDL's Local Spending Tracker raised early warning signs that the Bank of Canada's interest rate hikes finally might be slowing consumer spending. Another month of data provides clearer evidence that spending had a rough start to the summer, softening noticeably in mid-June and July, after the Bank's most recent rate hikes.

Many analysts have wondered why the nearly five percentage points of cumulative rate increases over the past year and half haven't yet slowed the economy and brought inflation back to target. As David Parkinson [points out](#), the situation boils down to this: Do rates need to be higher? Or do we just need to wait longer for them to work?

Increasingly, I think the answer is the latter. The Bank of Canada's medicine has only started to kick in. One way to understand the delayed reaction of the economy to higher rates is by analyzing the restrictiveness of monetary policy, as measured by the real policy interest rate (i.e., the nominal overnight rate less the rate of inflation).

As the [chart](#) below shows, even though the Bank started raising rates in March 2022, it took one full year to reach the crossover point where the nominal policy rate finally exceeded the inflation rate, making the real policy rate positive, and therefore discouraging spending.

Like most central banks, the Bank of Canada fell farther behind the curve in the first half of 2022, when inflation spiked globally as Russia's invasion of Ukraine exacerbated extreme supply-chain problems. With the run-up of inflation, the real policy rate was deeply negative, therefore essentially encouraging spending, throughout 2021 and 2022, hitting a trough of -6.7 percent in April 2022.

In fact, it's been only a few months—since May 2023—that the real policy rate has started to bite, as higher interest rates coexist with slower inflation. (The drop in headline inflation largely reflects lower gas prices relative to the prior year; such “base effects” are dropping out of year-over-year calculations, which will slow further progress).

The latest Conference Board data for August put consumer confidence in recessionary territory, 40 percent below its survey average. Fewer than 9 percent of consumers think now is a good time to make a major purchase. That's even lower than early in the pandemic! The Nanos-Bloomberg weekly consumer confidence index has also sagged, albeit more modestly, after the Bank resumed rate hikes in June.

Message from the Chief Economist (cont'd)



Business Data Lab Laboratoire de données sur les entreprises

For its part, the labour market has been abnormally tight, with strong demand generating remarkable job growth and consistently surprising on the upside. But this dynamic too is softening. Job vacancies are down from their peak, and the unemployment rate rose to 5.5 percent in July, half a percentage point higher than a few months earlier.

Our consumer spending data show that strong population growth due to immigration, combined with higher-than-typical inflation, is keeping the economy moving along, at least in nominal terms, but there are cracks in the fundamentals when we look below the surface.

First, the good news: nominal spending in July was up on an annual basis by over 2 percent, and was positive in all regions of the country except Manitoba.

But digging into the high-frequency data shows that, after consumers' surprising resilience in April into early June, spending fell noticeably in mid-June and into July following the Bank's most recent rate hikes.

After adjusting for inflation, real spending growth turned negative on an annual basis after these rate hikes. For July, it was down nationally by just over 1 percent, and negative in 7 of 13 regions.

Once we remove inflation and population growth, real spending growth per person is a major cause for concern. It's been negative throughout the second quarter. In July, it was down over 3 percent nationally on an annual basis, and negative everywhere except in two territories. The weakness is heavily concentrated in Ontario's major cities—Toronto, Ottawa, Hamilton and Kitchener-Waterloo—as well as in Manitoba.

Where does this leave us? Most signals suggest consumers are not only losing confidence; they're finally pulling back on spending. Canada's economy likely will slow in the second half of the year, with weak spending and cooling labour markets. Businesses should keep an eye on their costs, as revenues are likely to come under pressure.

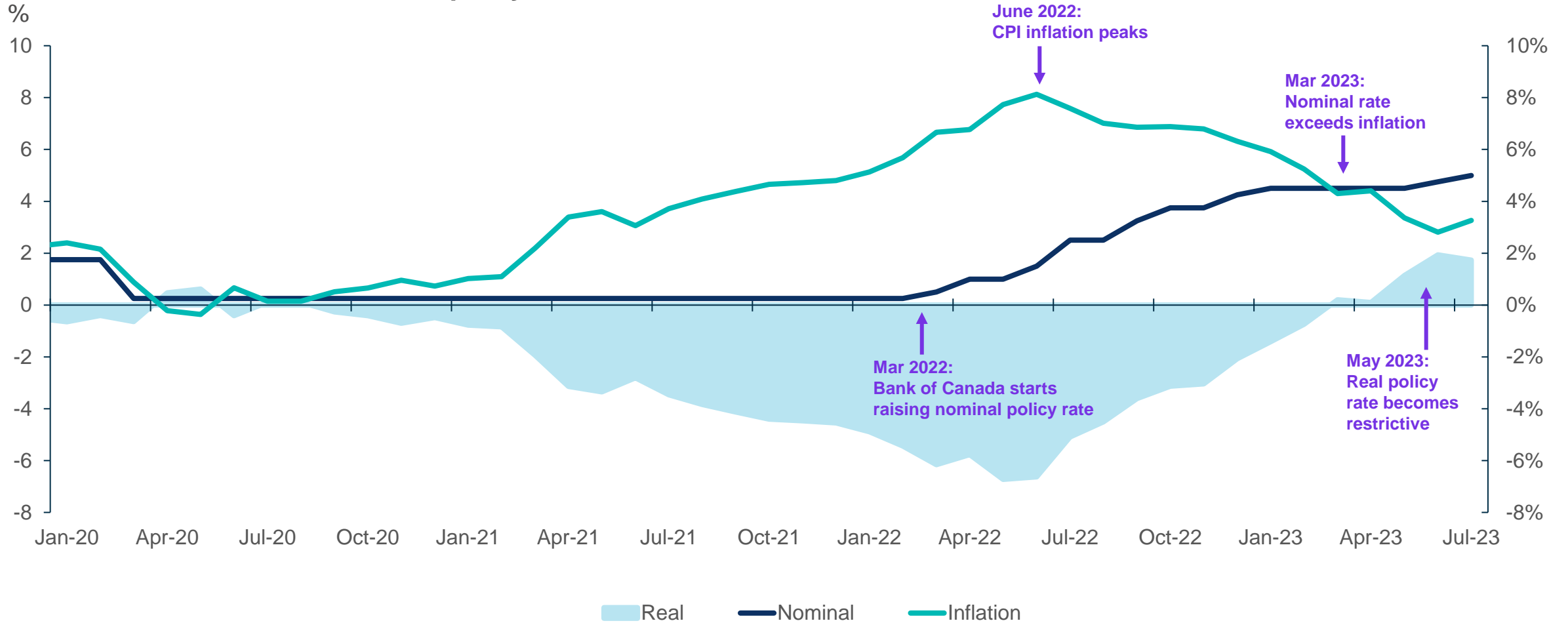
The Bank of Canada should be patient, and cautious about additional rate hikes. Although underlying inflation pressures remain problematic, we don't need more medicine. We just need more time for the earlier medicine to work its way through the economy.

Stephen Tapp (STapp@Chamber.ca)
Canadian Chamber of Commerce Chief Economist



Context: Even though rates started rising in March 2022, monetary policy only recently became restrictive, with higher interest rates and slower inflation

Bank of Canada's nominal and real policy rates, CPI inflation



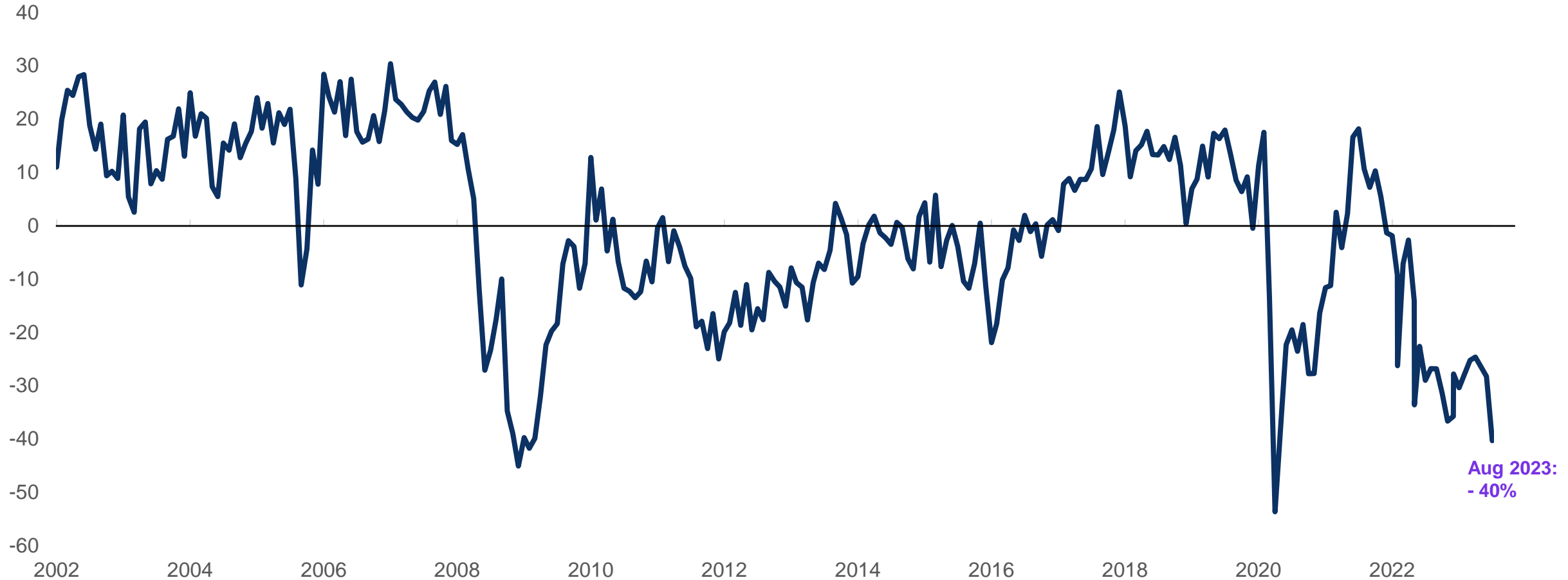
Nominal policy rate = Bank of Canada overnight rate; Real policy rate = policy rate adjusted for inflation; Inflation = annual change in the total Consumer Price Index
Source: Canadian Chamber of Commerce Business Data Lab calculations using Bank of Canada and Statistics Canada data.



Context: Consumer confidence recently fell into recessionary territory

Consumer Confidence, Canada

% gap relative to survey average



Aug 2023:
- 40%



National

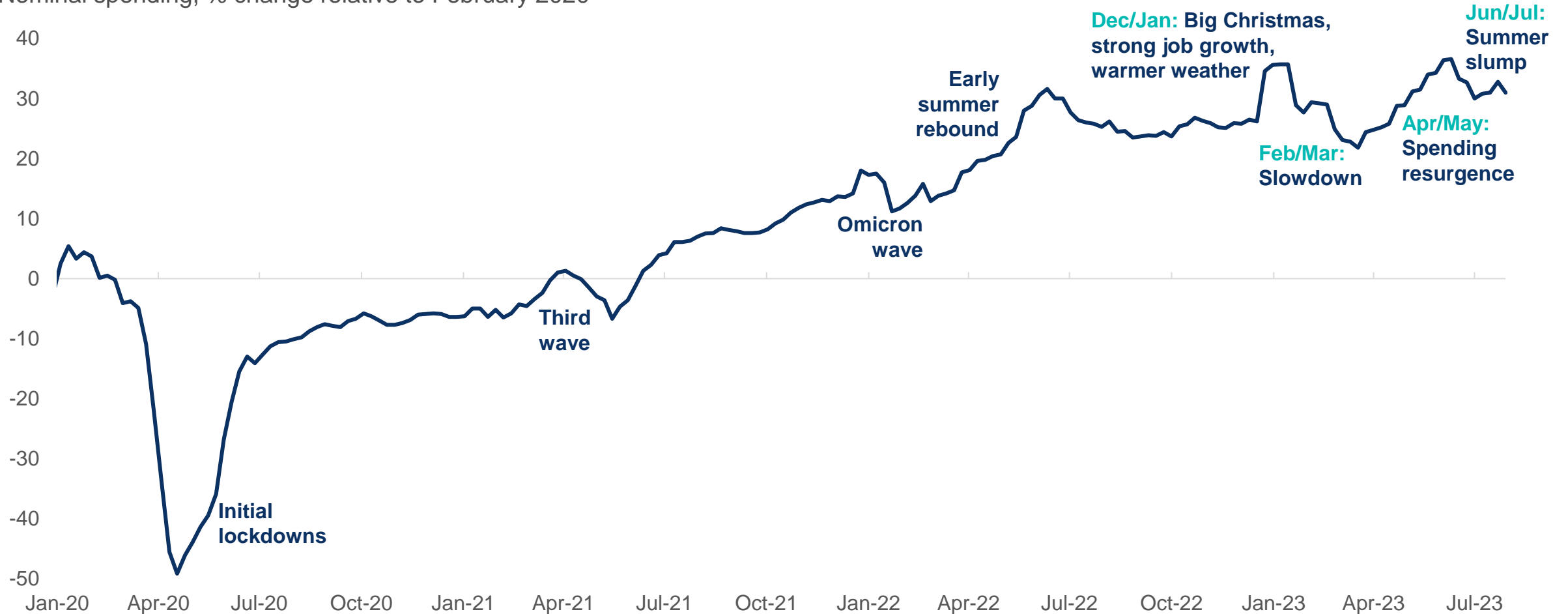




National spending changes since the start of the pandemic

Local Spending Tracker, Canada

Nominal spending, % change relative to February 2020



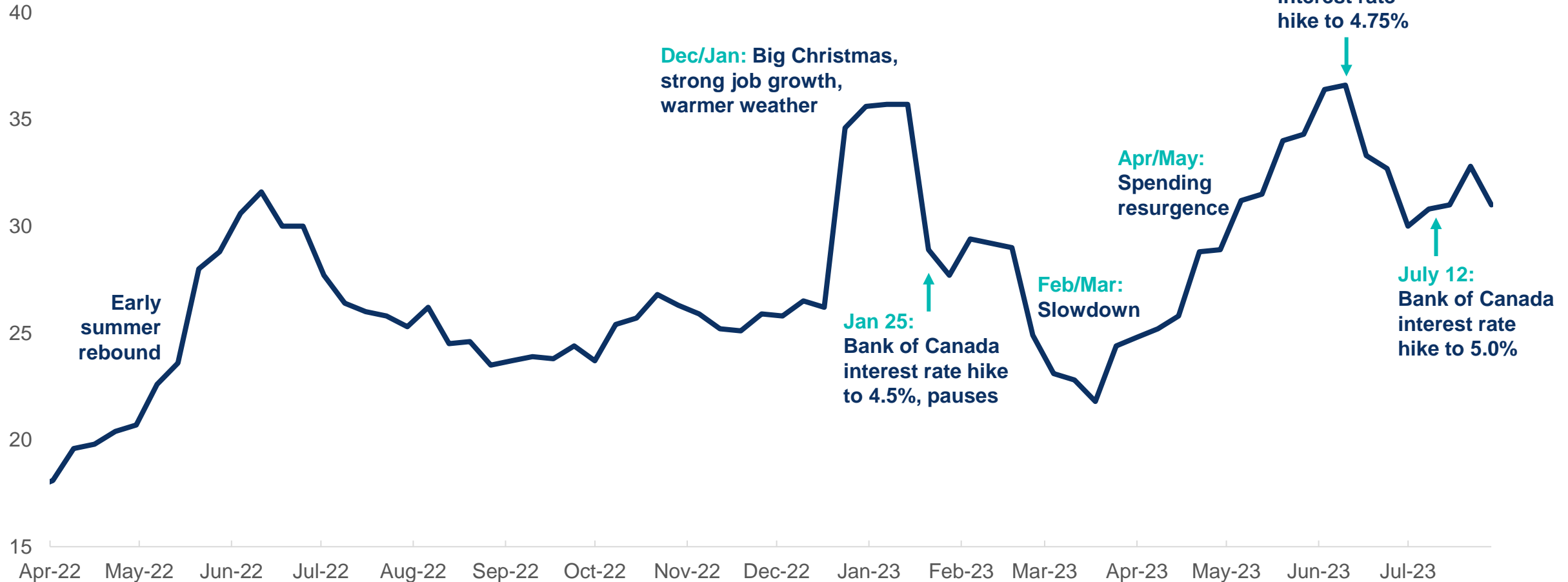
Source: Canadian Chamber of Commerce Business Data Lab calculations using Moneris data.



Consumer spending started slowing after the Bank of Canada resumed its interest rate hikes in June...

Local Spending Tracker, Canada

Nominal spending, % change relative to February 2020

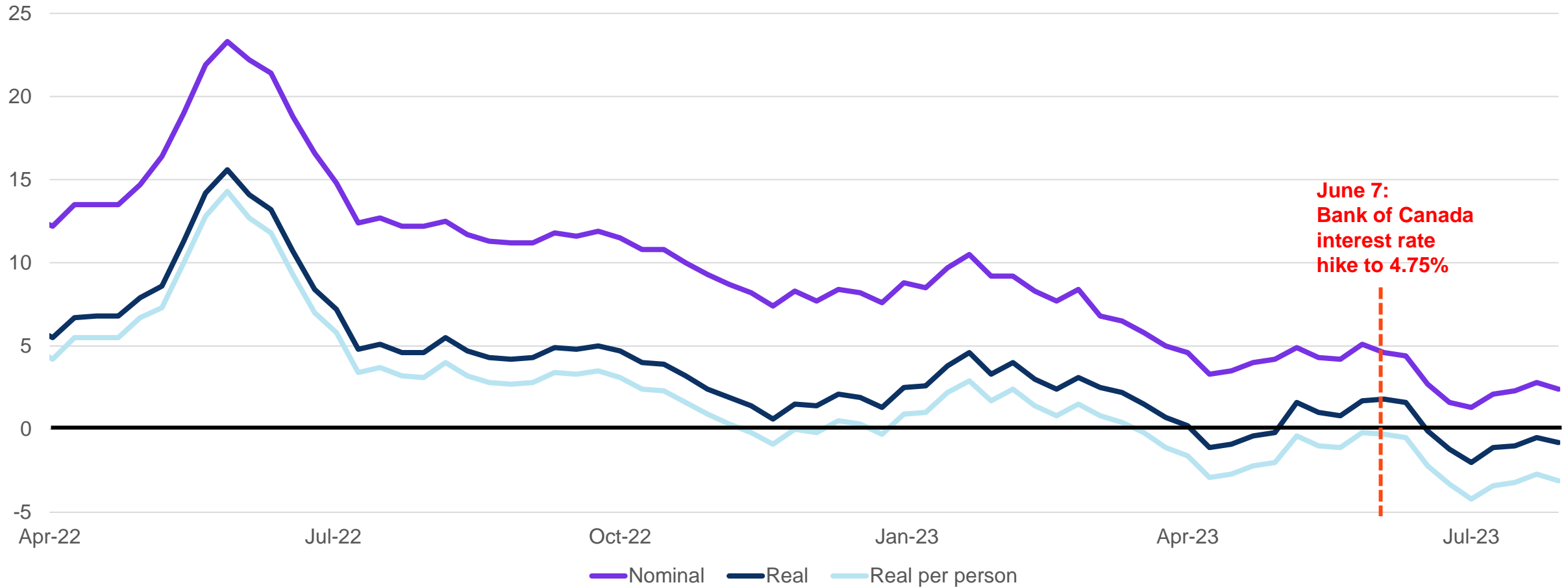


Source: Canadian Chamber of Commerce Business Data Lab calculations using Moneris data.



...with real consumer spending growth turning negative on an annual basis after the most recent rate increases.

Spending growth indicators, Canada
% change, year-over-year

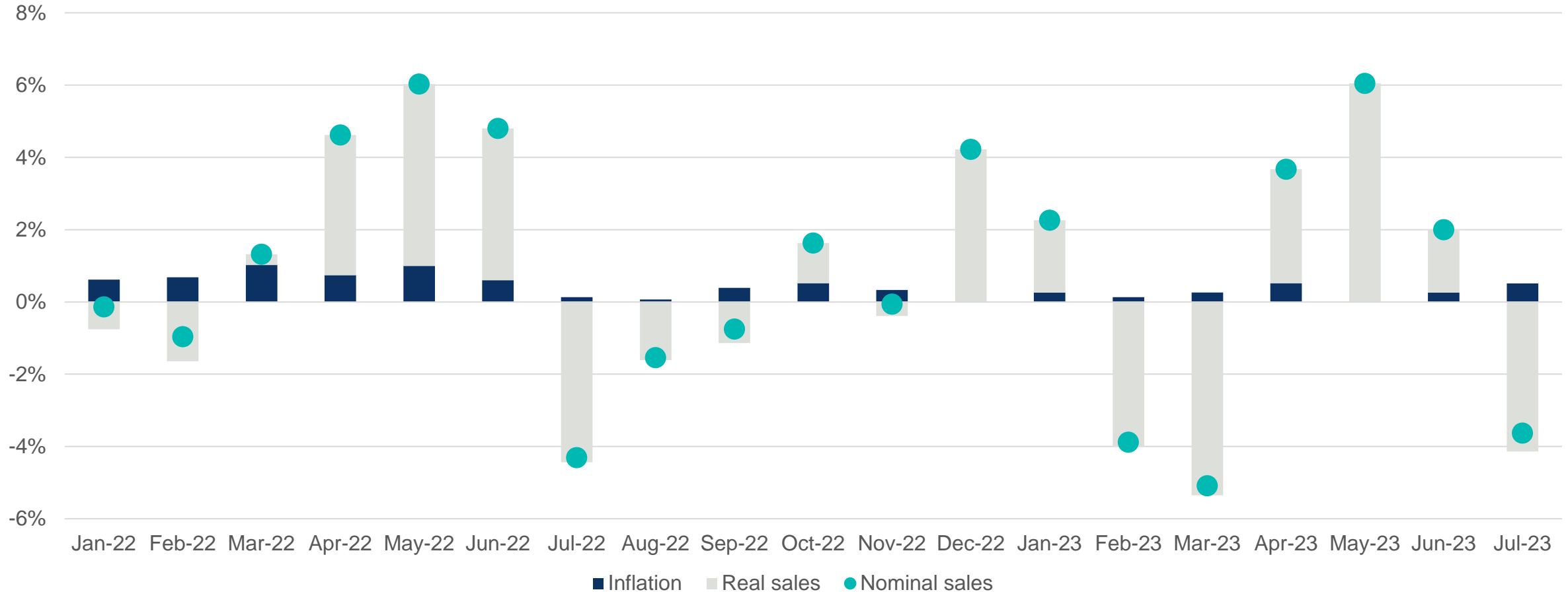


Nominal = current dollar spending; real = adjusted for inflation; real per person = adjusted for inflation and population growth
Source: Canadian Chamber of Commerce Business Data Lab calculations using Moneris and Statistics Canada data.



After displaying surprising resilience in April through early June, consumer spending fell noticeably in July

Nominal Local Spending Tracker decomposition, Canada
% change, month-over-month



Source: Canadian Chamber of Commerce Business Data Lab calculations using Moneris and Statistics Canada data.



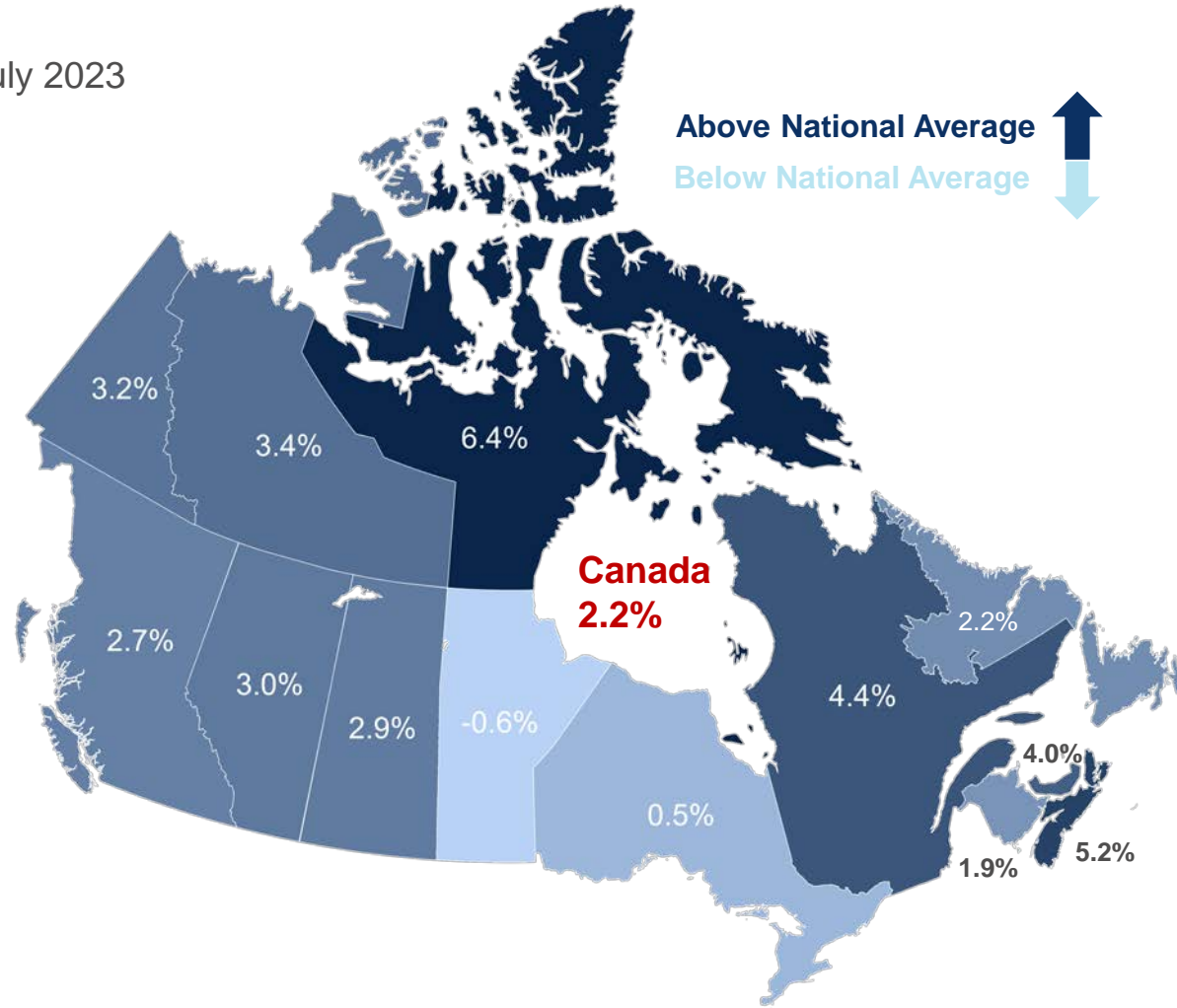
Regional results



Nominal consumer spending growth was positive on an annual basis across all regions, except Manitoba

Nominal spending

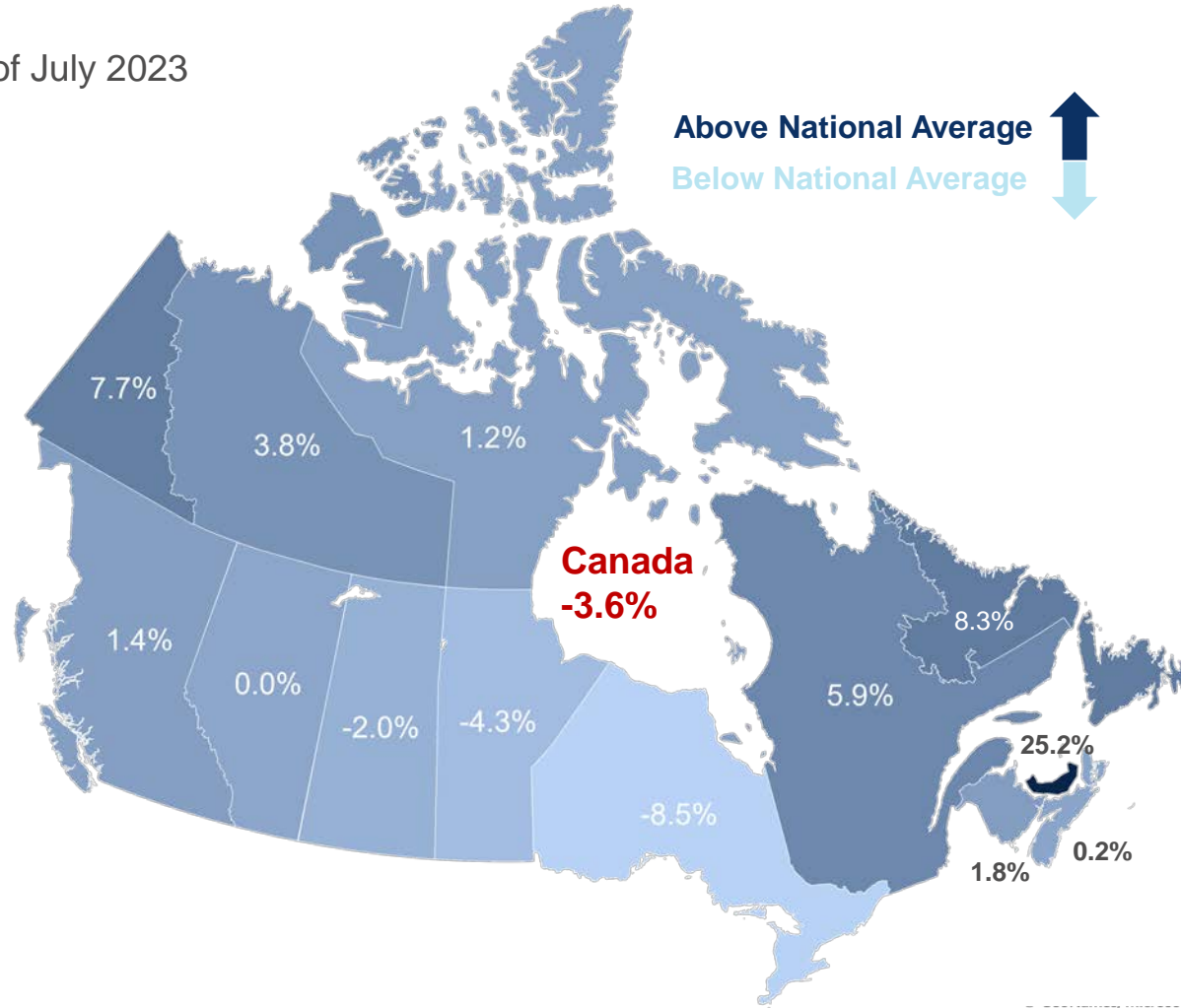
% change, year-over-year, as of July 2023



Nominal spending fell on a monthly basis nationally, with significant weakness in Central Canada

Nominal spending

% change, month-over-month, as of July 2023

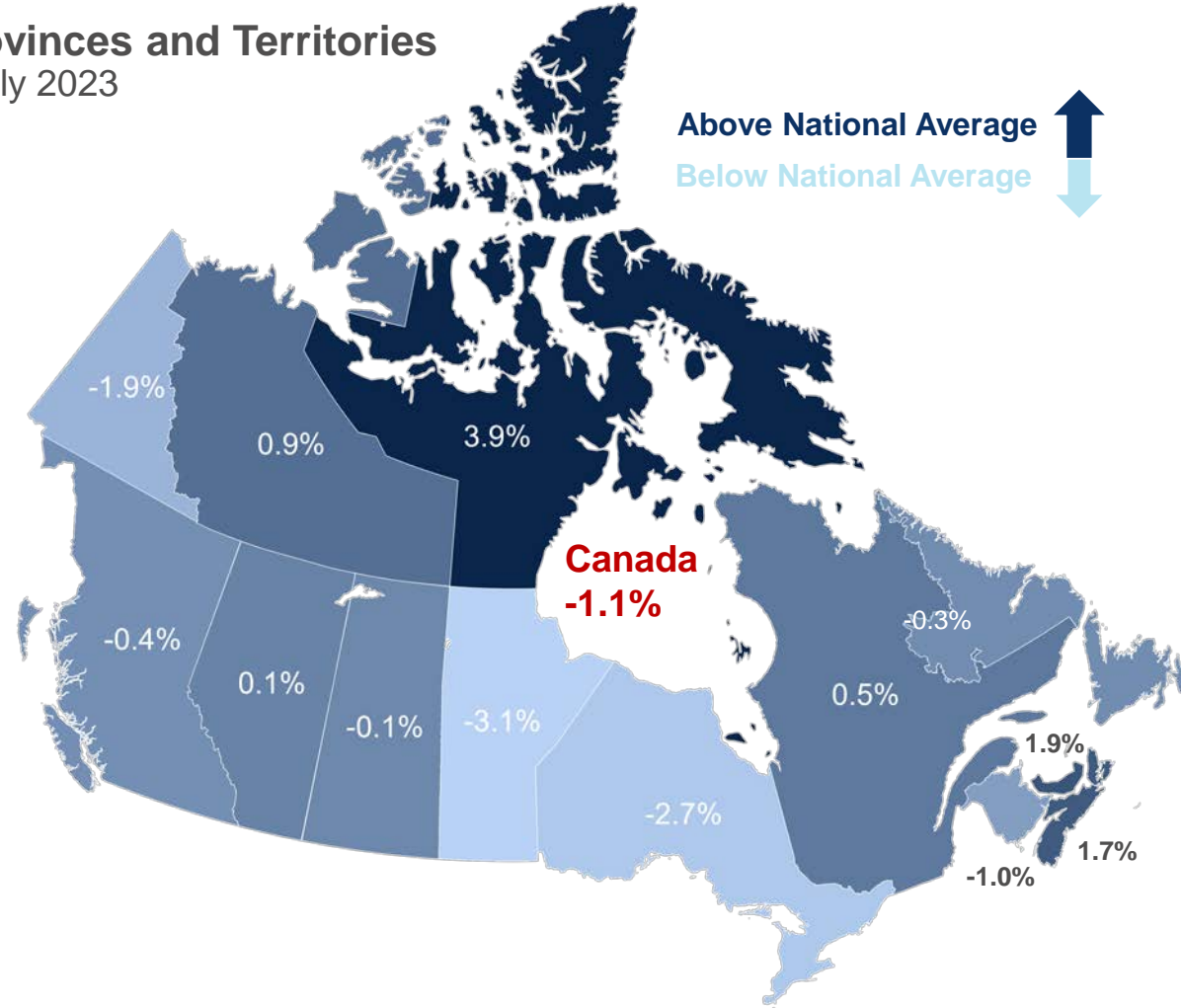


Source: BDL calculations using Moneris data.



After adjusting for inflation, **real** spending growth was negative on an **annual** basis in 7 of 13 regions

Real spending*, Canada, Provinces and Territories
% change, year-over-year, as of July 2023

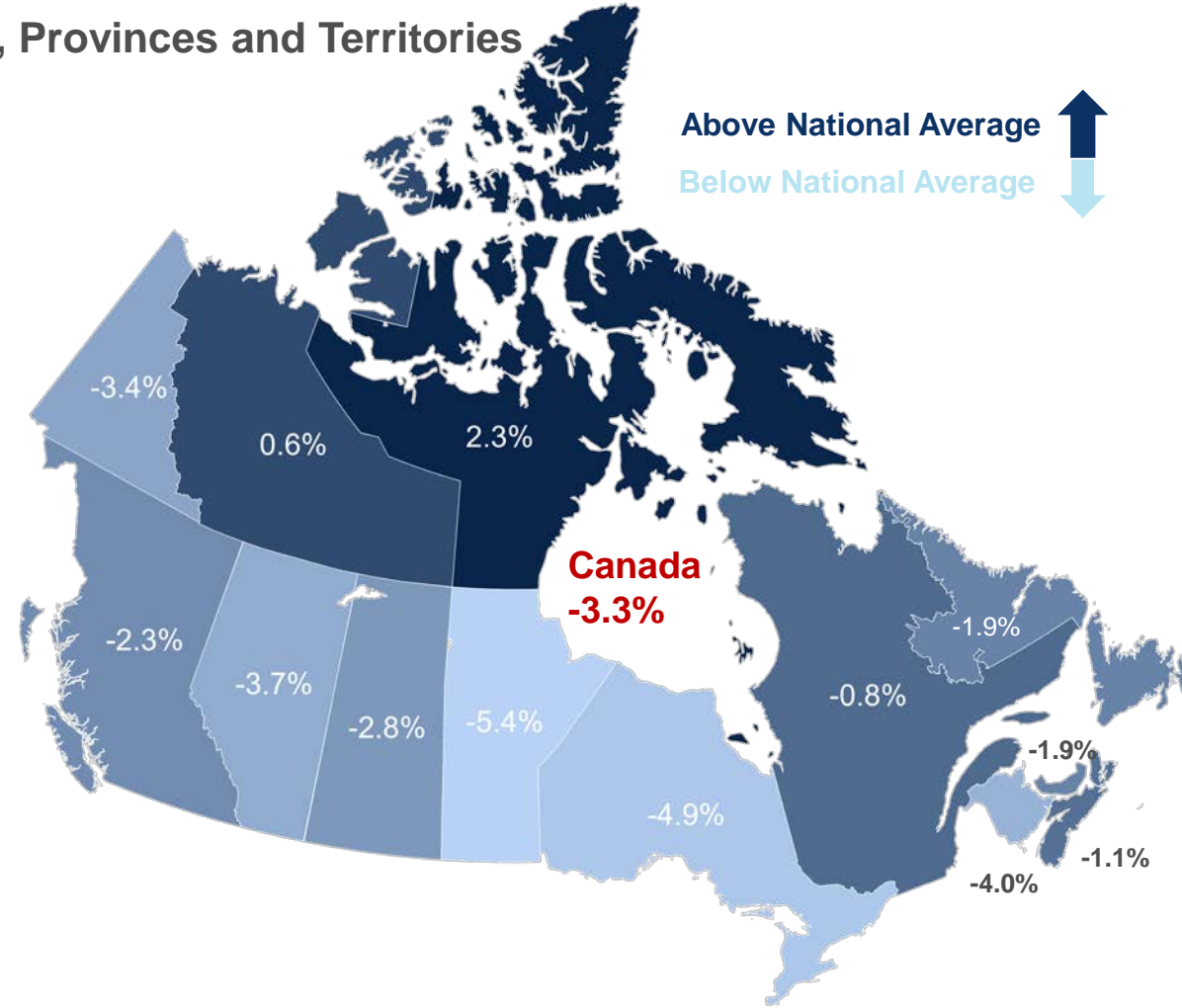


*Real = adjusted for inflation.
Source: BDL calculations using Moneris data.



After adjusting for inflation and population, **real spending growth per person** was negative on an **annual** basis in 11 of 13 regions

Real spending per person*, Canada, Provinces and Territories
% change, year-over-year, as of July 2023



*Real spending per person = adjusted for inflation and population changes.
Source: BDL calculations using Moneris data.

Provincial, territorial rankings across indicators

Nominal spending growth Year-over-year % changes

1 Nunavut	6.4
2 Nova Scotia	5.2
3 Quebec	4.4
4 PEI	4.0
5 NWT	3.4
6 Yukon	3.2
7 Alberta	3.0
8 Saskatchewan	2.9
9 BC	2.7
Canada	2.2
10 NFLD	2.2
11 New Brunswick	1.9
12 Ontario	0.5
13 Manitoba	-0.6

Real spending growth

1 Nunavut	3.9
2 PEI	1.9
3 Nova Scotia	1.7
4 NWT	0.9
5 Quebec	0.5
6 Alberta	0.1
7 Saskatchewan	-0.1
8 NFLD	-0.3
9 BC	-0.4
10 New Brunswick	-1.0
Canada	-1.1
11 Yukon	-1.9
12 Ontario	-2.7
13 Manitoba	-3.1

Real spending growth per person

1 Nunavut	2.3
2 NWT	0.6
3 Quebec	-0.8
4 Nova Scotia	-1.1
5 NFLD	-1.9
6 PEI	-1.9
7 BC	-2.3
8 Saskatchewan	-2.8
Canada	-3.3
9 Yukon	-3.4
10 Alberta	-3.7
11 New Brunswick	-4.0
12 Ontario	-4.9
13 Manitoba	-5.4

Nominal spending growth Month-over-month % changes

1 PEI	25.2
2 NFLD	8.3
3 Yukon	7.7
4 Quebec	5.9
5 NWT	3.8
6 New Brunswick	1.8
7 BC	1.4
8 Nunavut	1.2
9 Nova Scotia	0.2
10 Alberta	0.0
11 Saskatchewan	-2.0
Canada	-3.6
12 Manitoba	-4.3
13 Ontario	-8.5

*As of July 2023; BC = British Columbia; NFLD = Newfoundland and Labrador; NWT= Northwest Territories; PEI= Prince Edward Island
Source: BDL calculations using Moneris data.

CMA rankings across indicators

Nominal spending growth

Year-over-year % changes

1 Iqaluit	9.5
2 Halifax	7.0
3 Charlottetown	4.6
4 Montreal	4.6
5 Vancouver	4.5
6 Quebec City	4.5
7 Calgary	4.0
8 Yellowknife	4.0
9 Whitehorse	3.2
10 Sudbury	2.9
11 K-W-C	2.5
12 Hamilton	2.4
13 Moncton	2.4
14 Toronto	2.3
Canada	2.2
15 Edmonton	2.2
16 Victoria	2.0
17 Gatineau	1.2
18 Regina	1.1
19 Winnipeg	0.2
20 St. John's	-0.9
21 Ottawa	-7.6

Real spending growth

1 Iqaluit	6.9
2 Halifax	3.4
3 Charlottetown	2.3
4 Yellowknife	1.4
5 Vancouver	0.9
6 Calgary	0.7
7 Quebec City	0.0
8 Edmonton	-0.1
9 Montreal	-0.2
10 Sudbury	-0.6
11 Victoria	-0.7
12 Moncton	-0.9
Canada	-1.1
13 Hamilton	-1.2
14 K-W-C	-1.2
15 Toronto	-1.3
16 Whitehorse	-1.9
17 Regina	-2.1
18 Gatineau	-2.1
19 Winnipeg	-2.6
20 St. John's	-3.8
21 Ottawa	-10.9

Real spending growth per person

1 Iqaluit	5.4
2 Yellowknife	1.1
3 Halifax	-0.9
4 Quebec City	-0.9
5 Sudbury	-1.0
6 Vancouver	-1.0
7 Charlottetown	-1.5
8 Montreal	-2.3
9 Victoria	-2.7
10 Hamilton	-2.9
Canada	-3.3
11 Whitehorse	-3.4
12 Calgary	-3.5
13 K-W-C	-3.7
14 Toronto	-4.0
15 Gatineau	-4.2
16 Edmonton	-4.3
17 Moncton	-4.9
18 Winnipeg	-5.1
19 Regina	-5.2
20 St. John's	-6.2
21 Ottawa	-13.1

Nominal spending growth

Month-over-month % changes

1 Charlottetown	22.9
2 Quebec City	8.9
3 Whitehorse	7.7
4 Gatineau	6.1
5 St. John's	5.4
6 Moncton	5.4
7 Montreal	3.3
8 Vancouver	1.8
9 Halifax	1.6
10 Calgary	1.5
11 Yellowknife	1.4
12 Victoria	0.0
13 Edmonton	-0.3
14 Iqaluit	-0.4
15 Sudbury	-1.5
16 Winnipeg	-3.4
Canada	-3.6
17 Regina	-4.3
18 K-W-C	-5.7
19 Toronto	-6.6
20 Hamilton	-9.0
21 Ottawa	-13.9

* As of July 2023; K-W-C= Kitchener-Waterloo-Cambridge
Source: BDL calculations using Moneris data.



Appendix





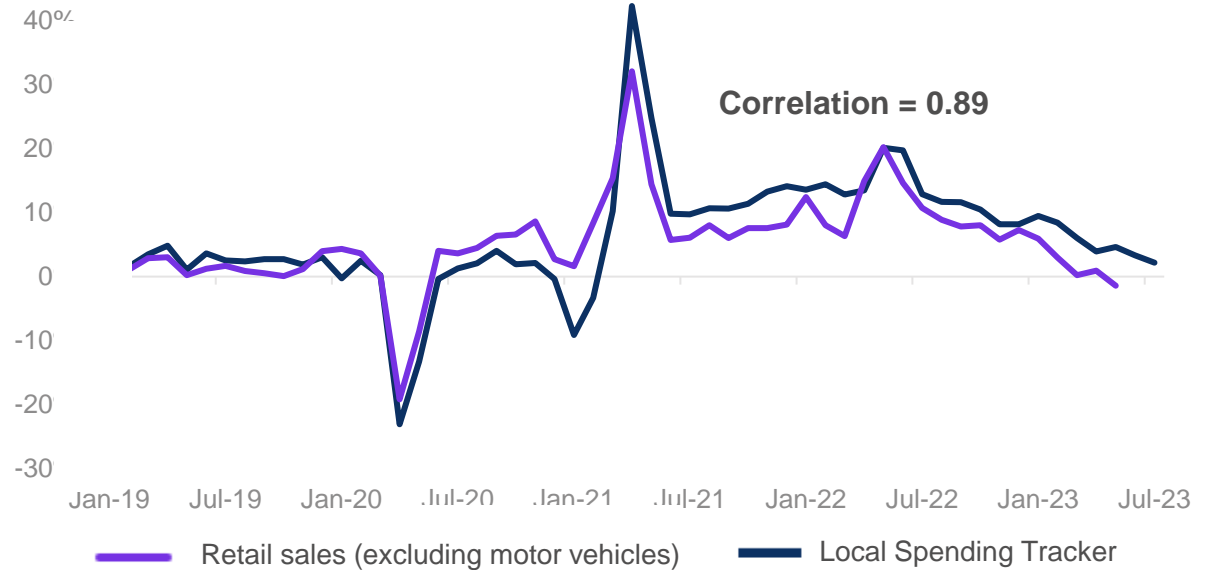
The Local Spending Tracker is highly correlated with Statistics Canada's official retail sales data

Local Spending Tracker and Retail Sales

Canada nominal spending, % change year-over-year



	Local Spending Tracker	Retail Sales
Publication lag	3 weeks	7 weeks
Frequency	Weekly	Monthly
Granularity	35 geographies	23 geographies



Note: Local Spending Tracker data are seasonally adjusted and aggregated from weekly to monthly frequency.
Sources: Canadian Chamber of Commerce Business Data Lab; Statistics Canada.

Methodology

- **Data concepts:** Consumer spending data capture total weekly transactional dollar volumes, net of refunds. Only Moneris-acquired credit and debit transactions are included. Moneris reporting dates use the start of the retail sales reporting week, which starts on Sunday. We benchmark these spending indices to the week of Feb 2-8, 2020. Volume changes are chain indexed by Moneris. Merchants are only counted if they are active in consecutive weeks, to control for changes in the sample over time. For more information on the payment dataset, see [Moneris Data Services](#).

“**Nominal spending growth**” represents the year-over-year percentage change in total current dollar spending processed by Moneris in these regions. “**Real spending growth**” adjusts for local inflation using Statistics Canada’s Consumer Price Index year-over-year inflation rate (Table 18-10-0004-01). “**Real spending per person**” adjusts for local inflation and population changes using Statistics Canada’s Labour Force Survey (Tables 14-10-0380-01 and 14-10-0292-01). The BDL seasonally adjusts the nominal series with a seasonal and trend decomposition using Loess, and smooths the results using a 4-week moving average.

- **Caveats:** Seasonally adjusting our data is important, however, the dataset covers a relatively short period (January 2019-present), and the pandemic disrupted typical seasonal patterns. There are conceptual differences between Statistics Canada retail sales and our data. For example, consumer spending on big-ticket items like vehicle sales are included in retail sales, but are not fully captured in our data (since few consumers pay for cars on debit/credit cards). Conversely, spending at restaurants is captured in our payments data, but not in retail sales. E-commerce purchases reflect the sellers’ corporate locations, not the buyers’ locations.
- **Contact:** This report presents analysis conducted by the Canadian Chamber of Commerce Business Data Lab. For questions or comments, please contact Stephen Tapp, Chief Economist (STapp@Chamber.ca).

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