Business Data Lab · Laboratoire de données sur les entreprises

LOCAL SPENDING TRACKER

Understanding Canada's "vibe-cession"

November 2023

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

"Many people are struggling to understand why consumers feel so bad, despite the fact that headline economic indicators in Canada have stayed out of typical recession territory.

This so-called "vibecession" is easier to see if you dig beneath the headline numbers. The BDL's latest estimates reveal the sad state of real spending growth per person, which is down 3.8% year-over-year nationally, and negative for more than three quarters of the cities we track!

Spending growth is weakest in the biggest cities. Vancouver, Toronto, Montreal, Winnipeg and Ottawa all trail the national numbers. Simple correlation analysis suggests consumers in places facing larger housing affordability challenges have cut their spending more. This isn't too surprising given the financial strain already being felt — and that surely lies ahead — due to higher mortgage rates, as the Bank of Canada attempts to bring inflation back to target."

Stephen Tapp
Chief Economist, Canadian Chamber of Commerce

Latest Canadian spending growth

Year-over-year, % change as of October 2023

2.0%	**-1.1%**	**-3.8%**
Nominal	Real	Real per person

Key Findings

Pessimistic consumer sentiment

- According to The Conference Board of Canada, consumer confidence in November fell to its lowest level outside of the pandemic. A strong majority (72%) think that now is a bad time for the average person to make a major purchase, such as a home or car.

- A recent Bank of Canada survey finds that most consumers (58%) are reducing their spending in response to high inflation, especially those with lower incomes.

Broad-based slowdown in consumer spending

- Our high-frequency consumer spending data show that, as real interest rates have increased, consumers have indeed cut back their spending.

- This slowdown in consumer spending is remarkably broad-based.

  - Despite the fact that nominal consumer spending growth in October remained positive on an annual basis in all provinces and territories except Manitoba, our analysis reveals that real spending growth per person (i.e., spending adjusted for inflation and population growth) is negative on an annual basis in more than three quarters (16 out of 21) of the cities we track.

Key Findings (continued)

Spending is weakest in Canada's largest cities, particularly those facing the largest housing affordability challenges

- Real spending growth per person in large cities, including Vancouver, Toronto, Montreal, Winnipeg and Ottawa, all trail the national average.

- Simple correlation analysis suggests consumers in regions facing the biggest housing affordability challenges (i.e., Ontario and British Columbia) have cut back on spending more.

- The few cities where spending is holding up include those in the Territories (Iqaluit and Whitehorse), Halifax, Sudbury and Quebec City.

Source: Canadian Chamber of Commerce Business Data Lab.

National

Consumer confidence is at its lowest level outside the pandemic; a strong majority think it's a bad time to make a major purchase.

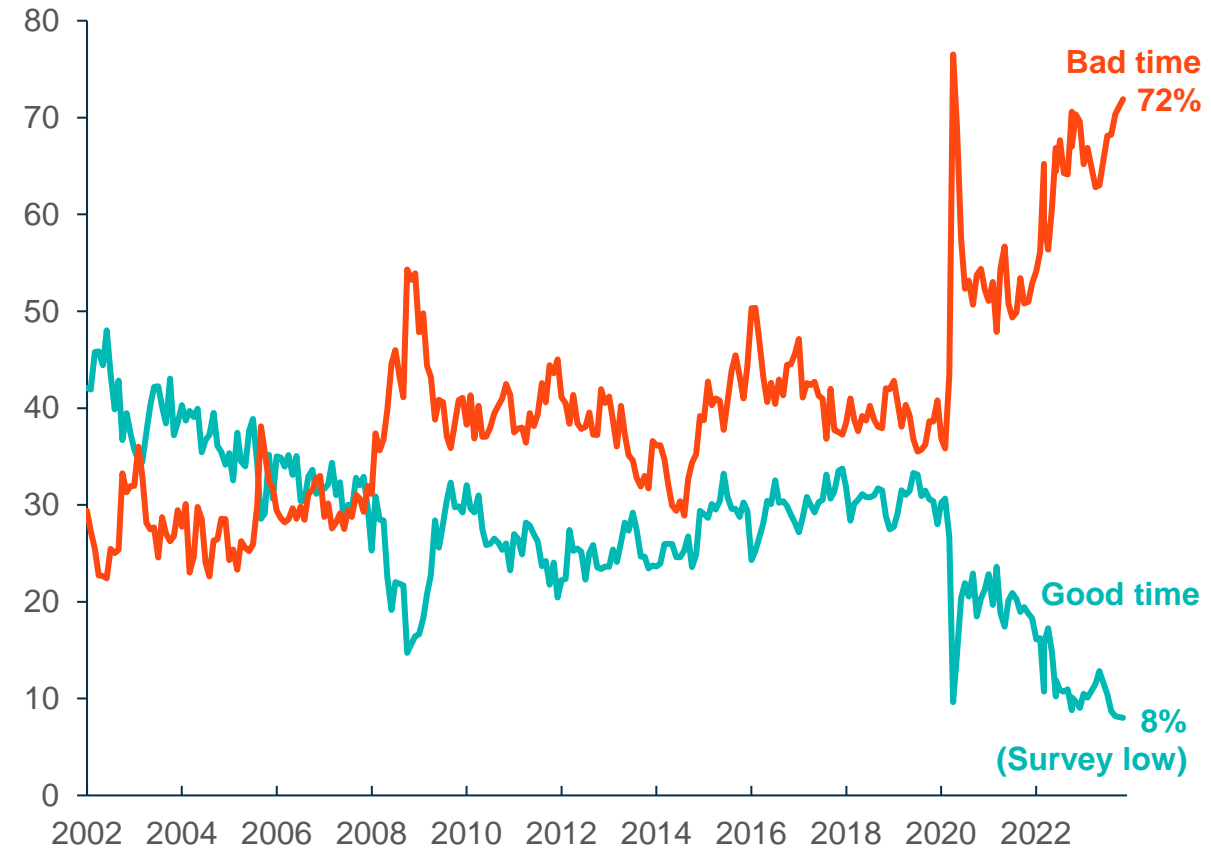## Canadian consumer confidence
Index, 2014=100

Dec 2008: 56

Apr 2020: 48

Nov 2023: 52

Canadian consumer confidence to make a major purchase
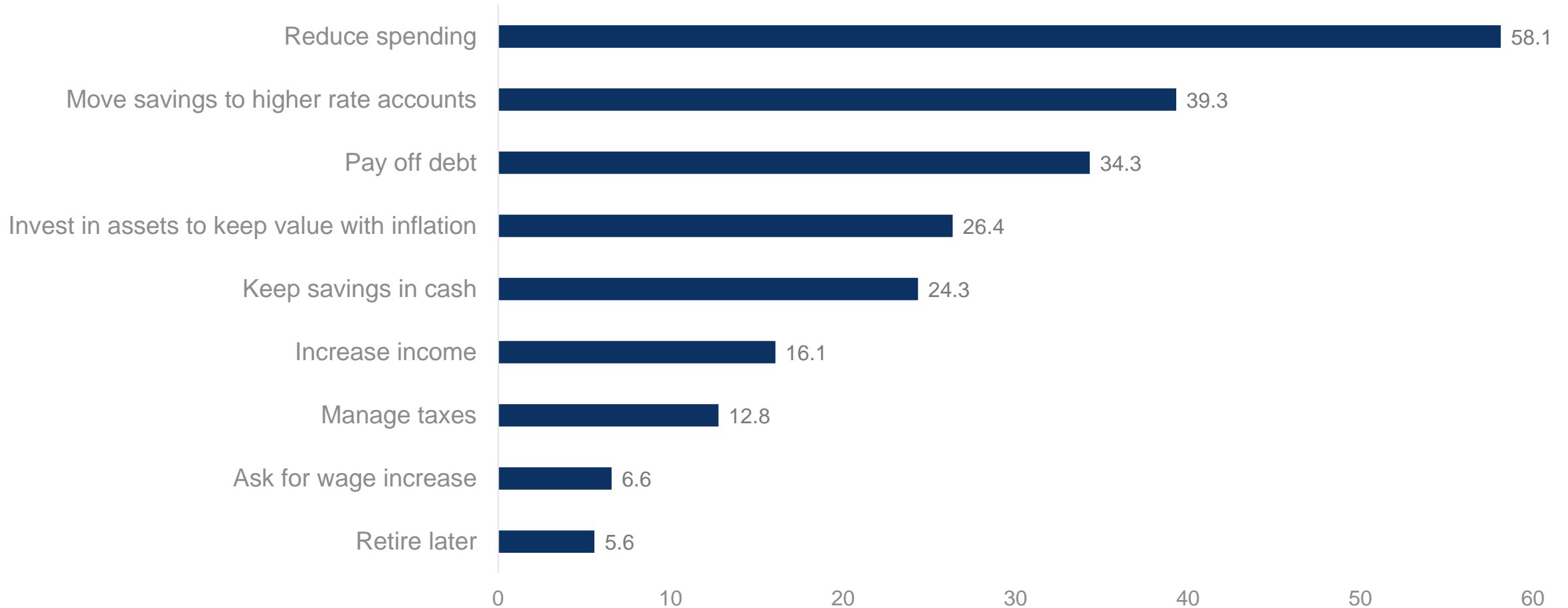% of respondents

Bad time 72%

Good time

8% (Survey low)

Nearly six-in-10 respondents say they are reducing their spending to protect against inflation

What actions are you taking to protect yourself against inflation?
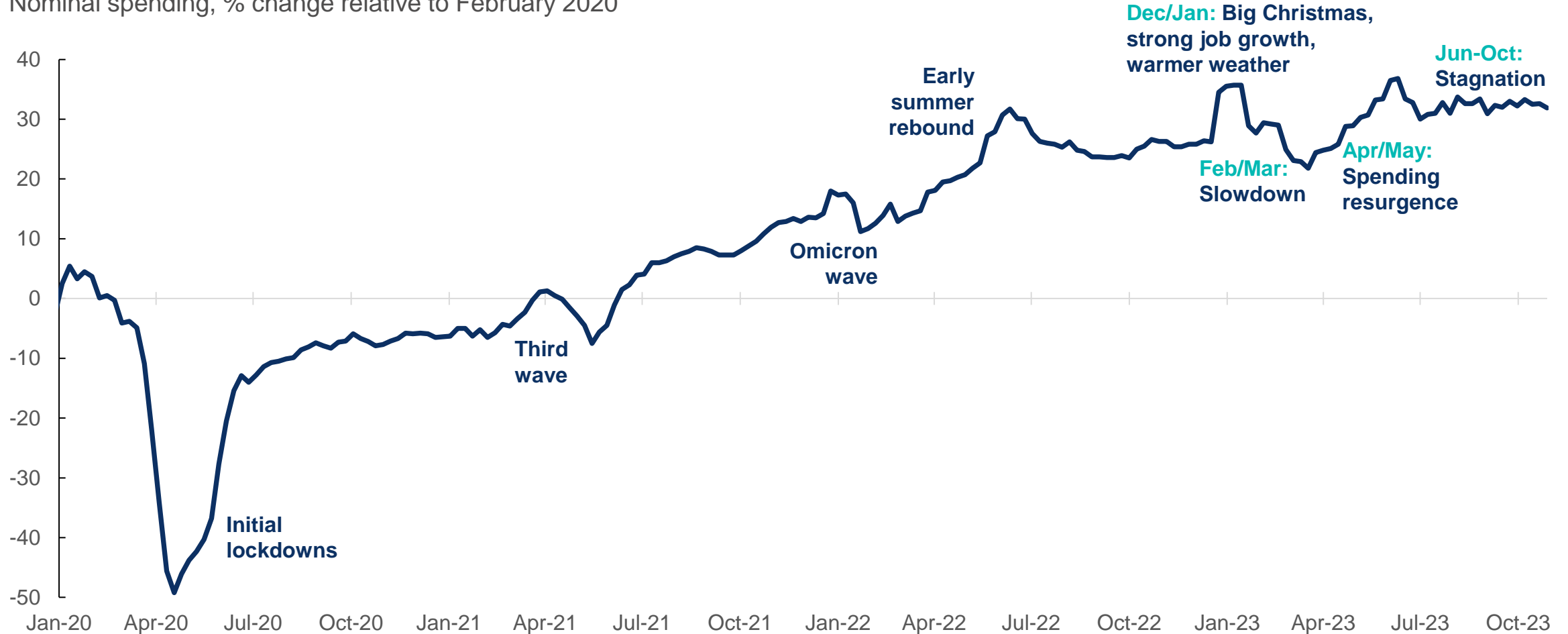% of respondents

Action	%
Reduce spending	58.1
Move savings to higher rate accounts	39.3
Pay off debt	34.3
Invest in assets to keep value with inflation	26.4
Keep savings in cash	24.3
Increase income	16.1
Manage taxes	12.8
Ask for wage increase	6.6
Retire later	5.6

National spending changes since the start of the pandemic

Local Spending Tracker, Canada
Nominal spending, % change relative to February 2020

Labels on chart:
- Initial lockdowns
- Third wave
- Omicron wave
- Early summer rebound
- **Dec/Jan:** Big Christmas, strong job growth, warmer weather
- **Feb/Mar:** Slowdown
- **Apr/May:** Spending resurgence
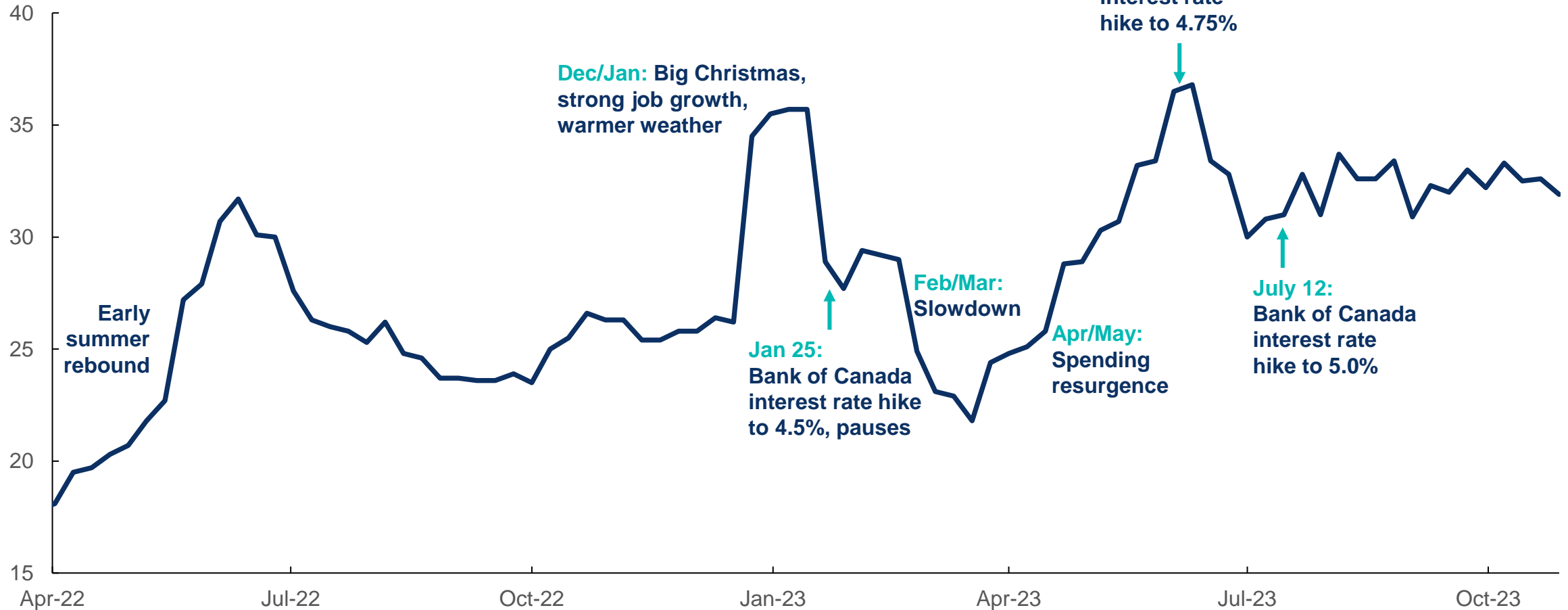- **Jun-Oct:** Stagnation

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

Consumer spending stagnated after the Bank of Canada resumed interest rate hikes in June…

Local Spending Tracker, Canada
Nominal spending, % change relative to February 2020

June 7:
Bank of Canada interest rate hike to 4.75%

Dec/Jan: Big Christmas, strong job growth, warmer weather

Feb/Mar:
Slowdown

July 12:
Bank of Canada interest rate hike to 5.0%

Early summer rebound

Jan 25:
Bank of Canada interest rate hike to 4.5%, pauses
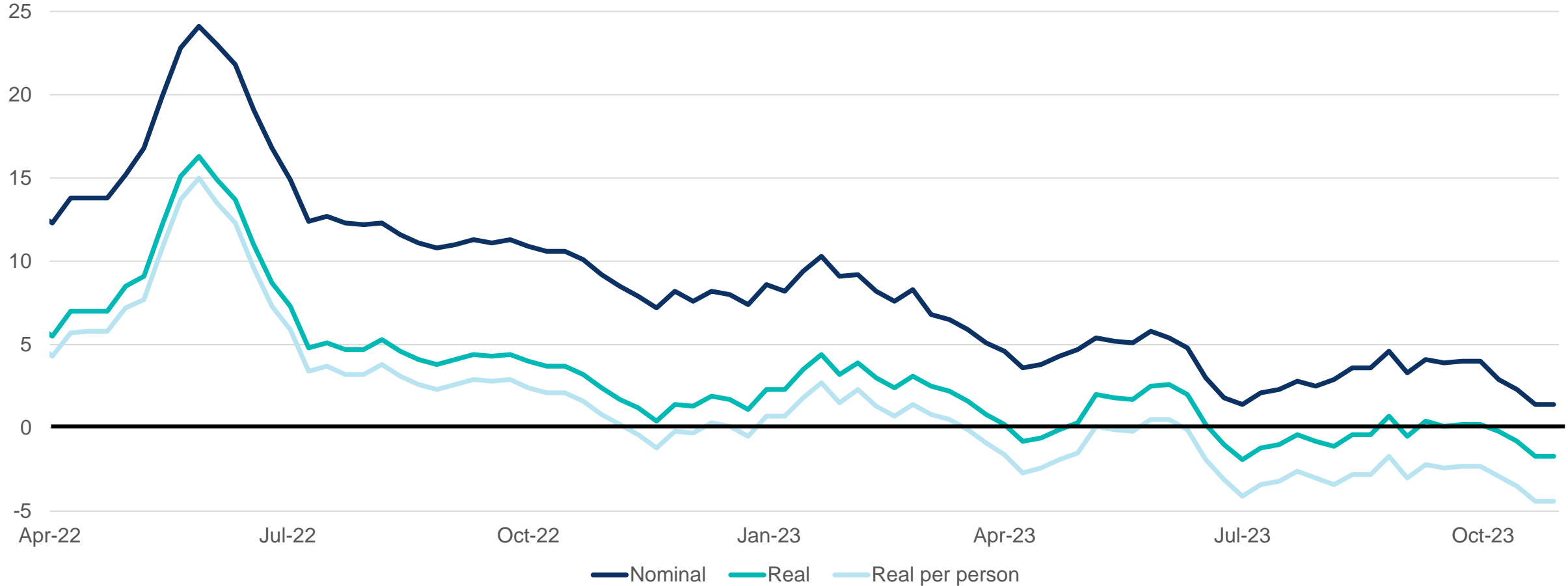
Apr/May:
Spending resurgence

…with real consumer spending growth turning negative on an annual basis after this summer's interest rate increases.

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

Legend: Nominal — Real — Real per person

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.

As real interest rates rise, real spending growth per person is falling

Real spending growth per person
% year-over-year change

Bank of Canada's real policy interest rate
percent
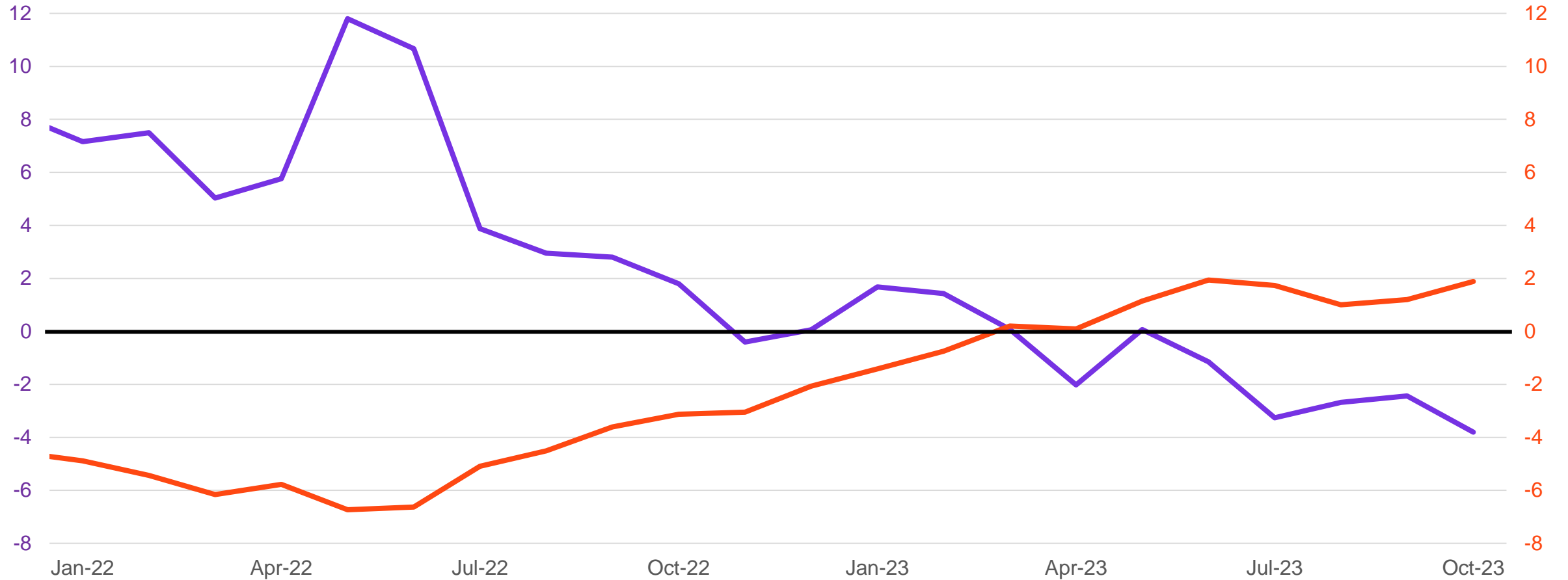
Source: Canadian Chamber of Commerce Business Data Lab calculations using Bank of Canada, Statistics Canada and Moneris data.
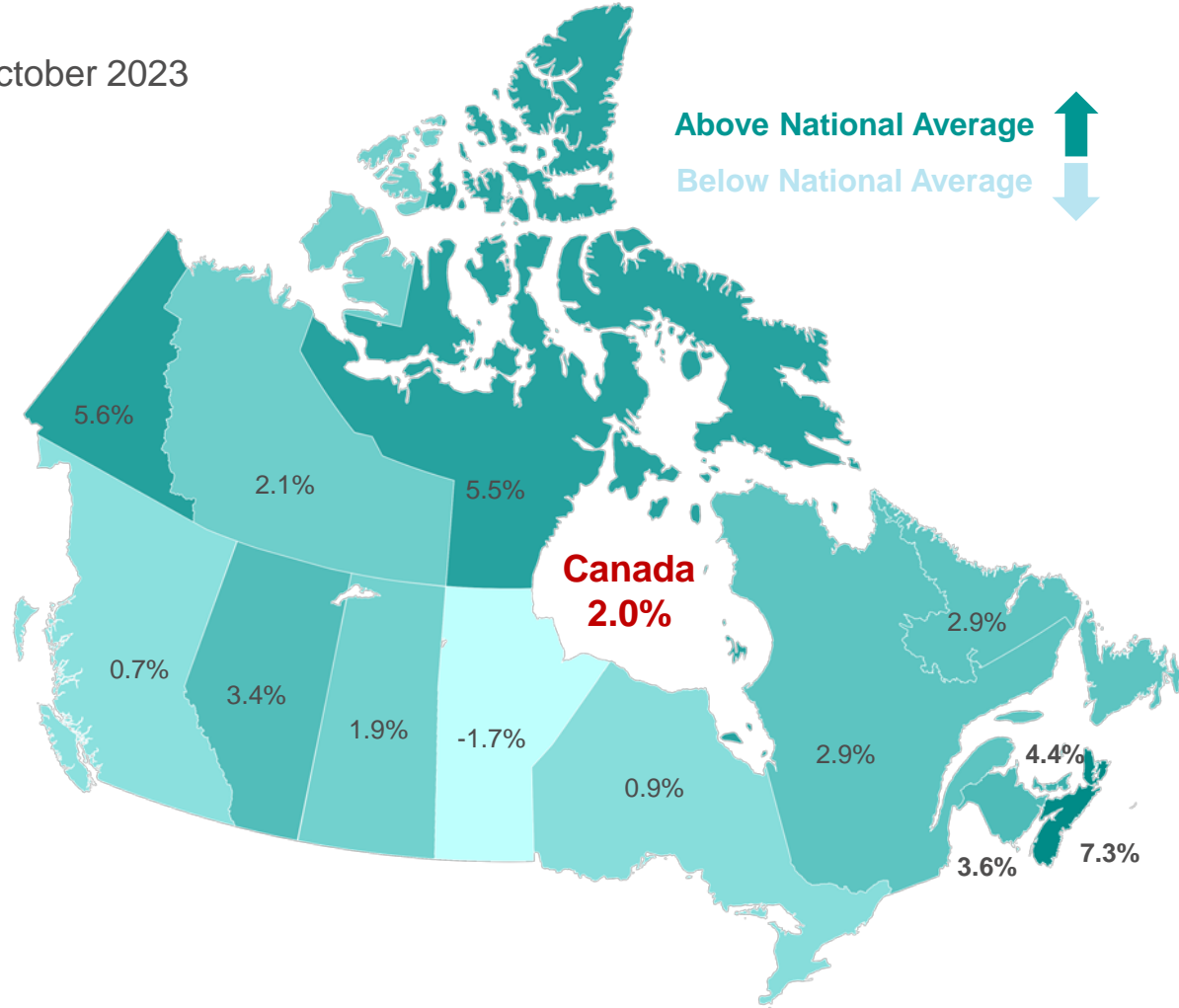
Regional results

Nominal consumer spending growth slowed in October, but on an annual basis remains positive in all provinces and territories except Manitoba.

Nominal spending
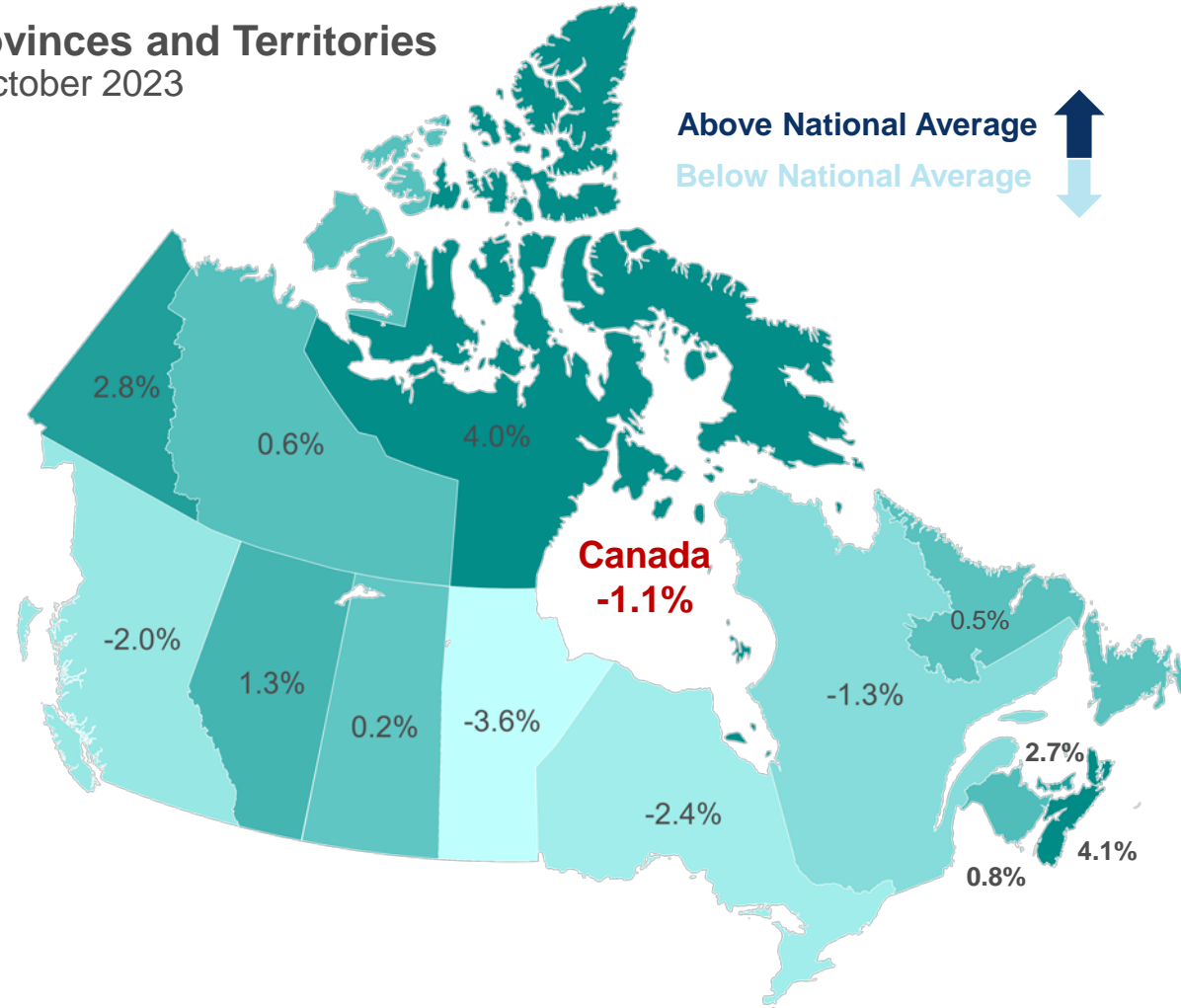% change, year-over-year, as of October 2023

Above National Average ⬆

Below National Average ⬇

5.6%

2.1%

5.5%

**Canada
2.0%**

0.7%

3.4%

1.9%

-1.7%

0.9%

2.9%

2.9%

4.4%

3.6%

7.3%

After adjusting for inflation, real spending growth was negative on an annual basis in 4 of 13 regions.

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

Above National Average
Below National Average

2.8%
0.6%
4.0%
-2.0%
1.3%
0.2%
-3.6%
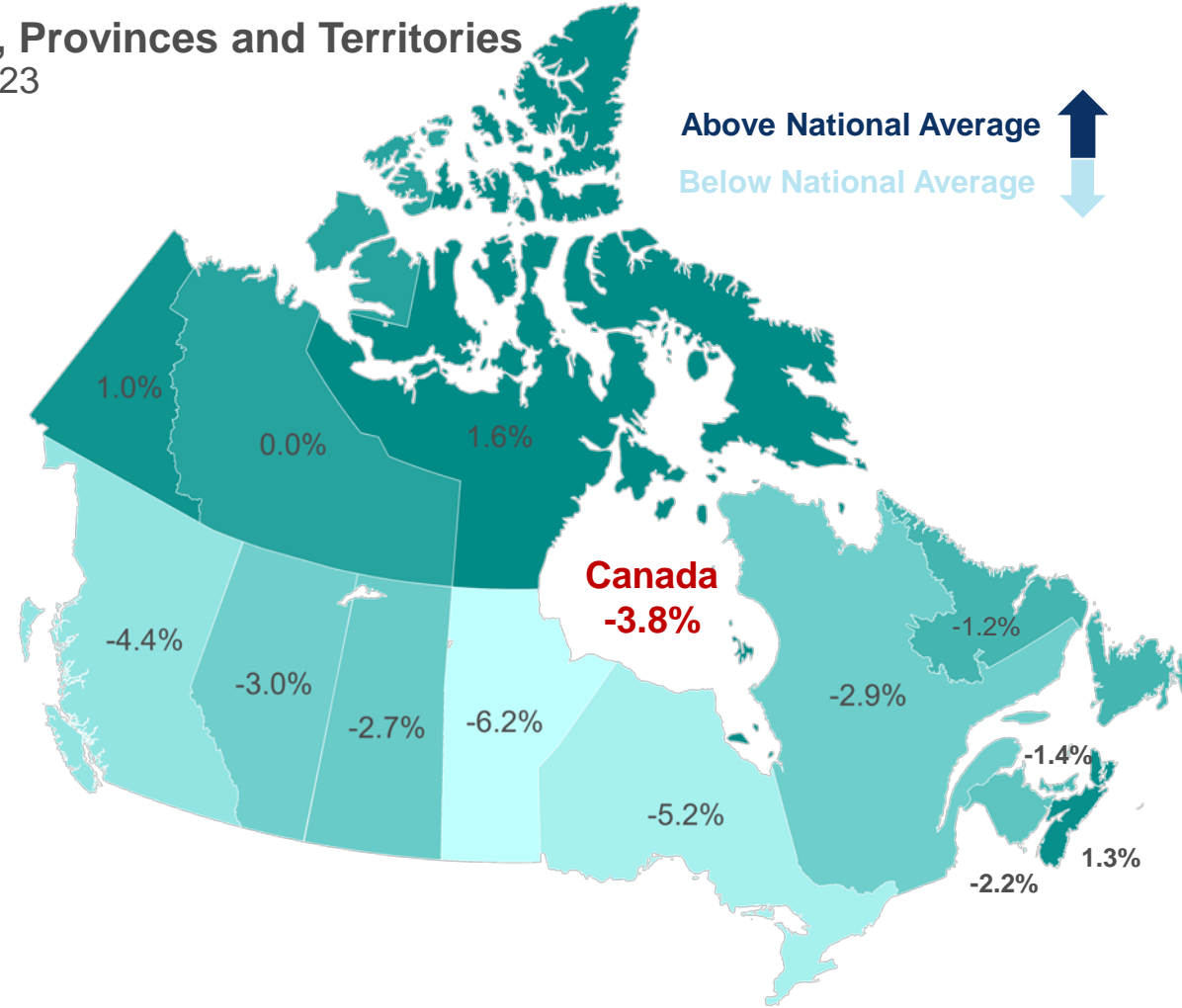**Canada -1.1%**
-1.3%
0.5%
2.7%
-2.4%
4.1%
0.8%

*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 9 of 13 regions.

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

Above National Average

Below National Average

1.0%

0.0%

1.6%

Canada -3.8%

-1.2%

-4.4%

-3.0%

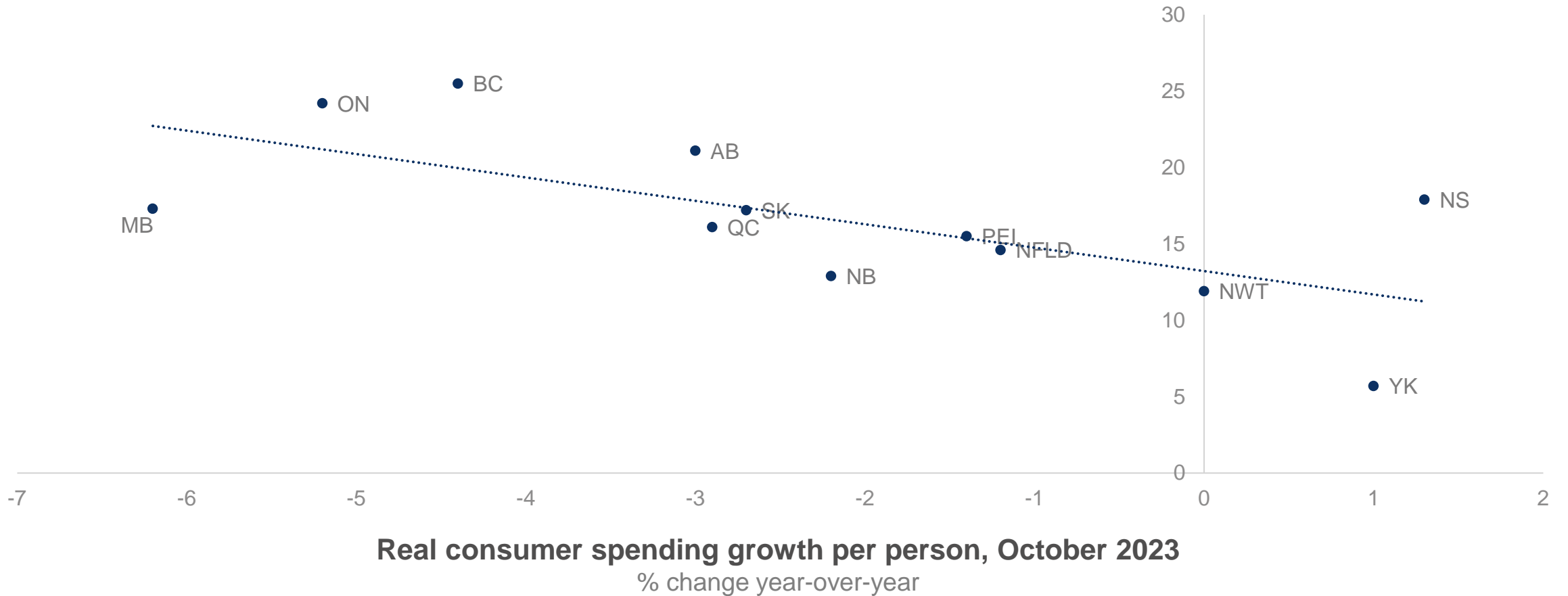-2.7%

-6.2%

-2.9%

-1.4%

-5.2%

1.3%

-2.2%

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

In provinces and territories with bigger housing affordability challenges, consumers have cut back more on their spending.

Unaffordable housing
% of households spending more than 30% of their income on shelter, 2021

Real consumer spending growth per person, October 2023
% change year-over-year

Source: Business Data Lab analysis, based on Statistics Canada census and Moneris data.

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Provincial, territorial rankings across indicators

Nominal spending growth
Year-over-year % changes

#	Province/Territory	%
1	Nova Scotia	7.3%
2	Yukon	5.6%
3	Nunavut	5.5%
4	PEI	4.4%
5	New Brunswick	3.6%
6	Alberta	3.4%
7	NFLD	2.9%
8	Quebec	2.9%
9	NWT	2.1%
	Canada	**2.0%**
10	Saskatchewan	1.9%
11	Ontario	0.9%
12	BC	0.7%
13	Manitoba	-1.7%

Real spending growth

#	Province/Territory	%
1	Nova Scotia	4.1%
2	Nunavut	4.0%
3	Yukon	2.8%
4	PEI	2.7%
5	Alberta	1.3%
6	New Brunswick	0.8%
7	NWT	0.6%
8	NFLD	0.5%
9	Saskatchewan	0.2%
	Canada	**-1.1%**
10	Quebec	-1.3%
11	BC	-2.0%
12	Ontario	-2.4%
13	Manitoba	-3.6%

Real spending growth per person

#	Province/Territory	%
1	Nunavut	1.6%
2	Nova Scotia	1.3%
3	Yukon	1.0%
4	NWT	0.0%
5	NFLD	-1.2%
6	PEI	-1.4%
7	New Brunswick	-2.2%
8	Saskatchewan	-2.7%
9	Quebec	-2.9%
10	Alberta	-3.0%
	Canada	**-3.8%**
11	BC	-4.4%
12	Ontario	-5.2%
13	Manitoba	-6.2%

*As of October 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	Halifax	9.7
2	Iqaluit	8.4
3	Quebec City	6.8
4	Whitehorse	5.6
5	Calgary	5.0
6	Sudbury	4.9
7	Gatineau	4.5
8	K-W-C	4.5
9	Regina	3.6
10	Charlottetown	3.5
11	Edmonton	3.4
12	Moncton	3.2
13	Hamilton	2.7
14	St. John's	2.1
	Canada	**2.0**
15	Victoria	1.6
16	Toronto	1.6
17	Montreal	1.3
18	Vancouver	1.2
19	Yellowknife	0.7
20	Winnipeg	-1.5
21	Ottawa	-5.1

Real spending growth

1	Iqaluit	6.9
2	Halifax	6.2
3	Whitehorse	2.8
4	Quebec City	2.5
5	Sudbury	2.3
6	Calgary	2.2
7	Gatineau	2.0
8	Charlottetown	1.8
9	Edmonton	1.8
10	Regina	1.3
11	Moncton	0.5
12	K-W-C	0.4
13	Victoria	-0.8
14	Yellowknife	-0.8
15	St. John's	-0.9
	Canada	**-1.1**
16	Hamilton	-1.3
17	Vancouver	-2.2
18	Toronto	-2.5
19	Montreal	-3.4
20	Winnipeg	-3.7
21	Ottawa	-7.7

Real spending growth per person

1	Iqaluit	4.5
2	Halifax	1.9
3	Sudbury	1.6
4	Quebec City	1.4
5	Whitehorse	1.0
6	Gatineau	-0.6
7	Yellowknife	-1.4
8	Regina	-2.1
9	Charlottetown	-2.2
10	Calgary	-2.5
11	K-W-C	-2.5
12	Edmonton	-2.9
13	Victoria	-3.2
14	St. John's	-3.4
15	Hamilton	-3.5
16	Moncton	-3.7
	Canada	**-3.8**
17	Vancouver	-4.4
18	Toronto	-5.9
19	Montreal	-6.2
20	Winnipeg	-6.9
21	Ottawa	-10.2

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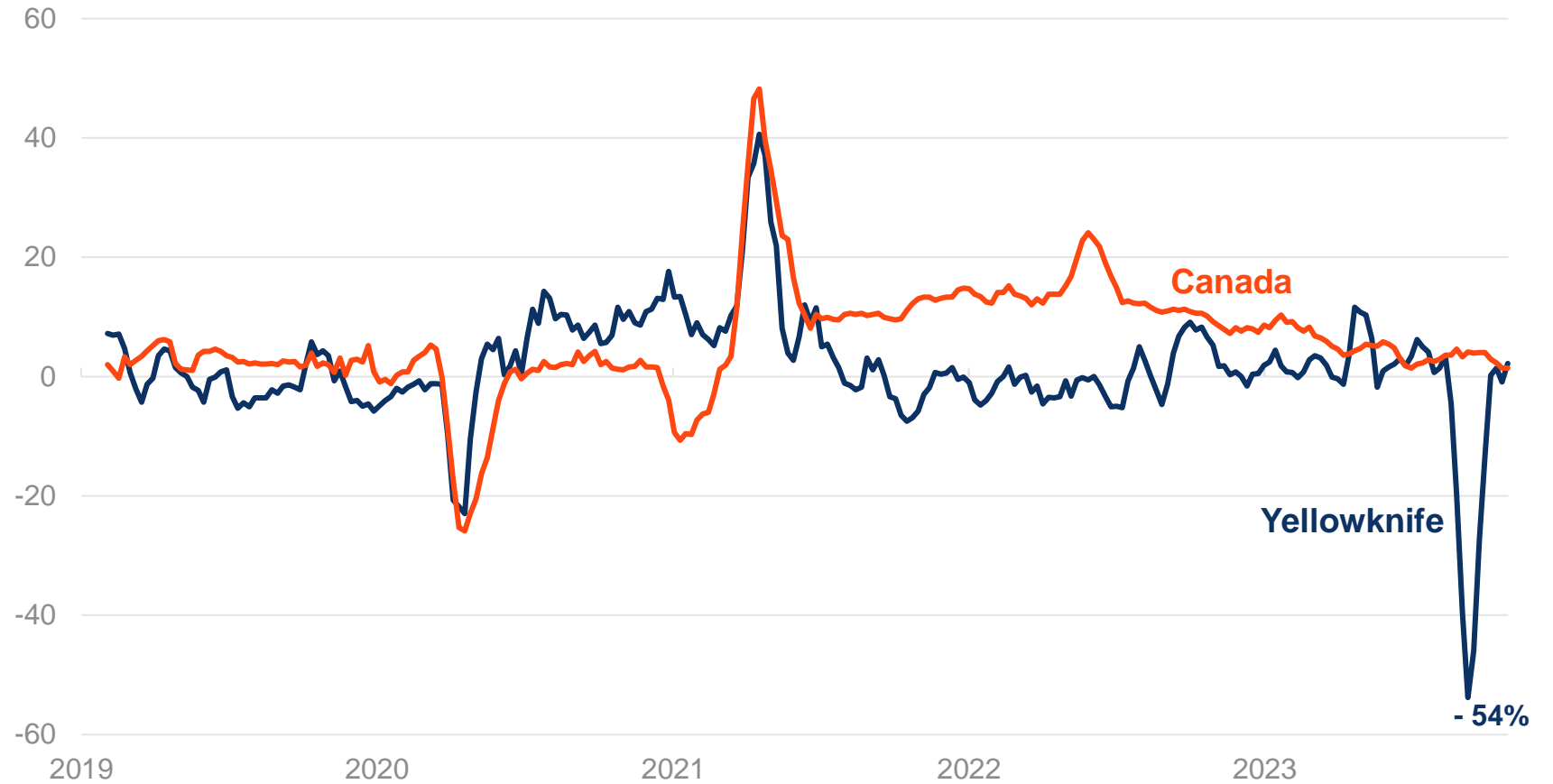
Appendix

Dramatic forest fire evacuation hits spending in Yellowknife

At its lowest point during the forest fire evacuation period in August and September 2023, spending in Yellowknife fell 54% year-over-year.

By the end of October, spending had recovered to be 2% above the same time a year ago.

Nominal spending
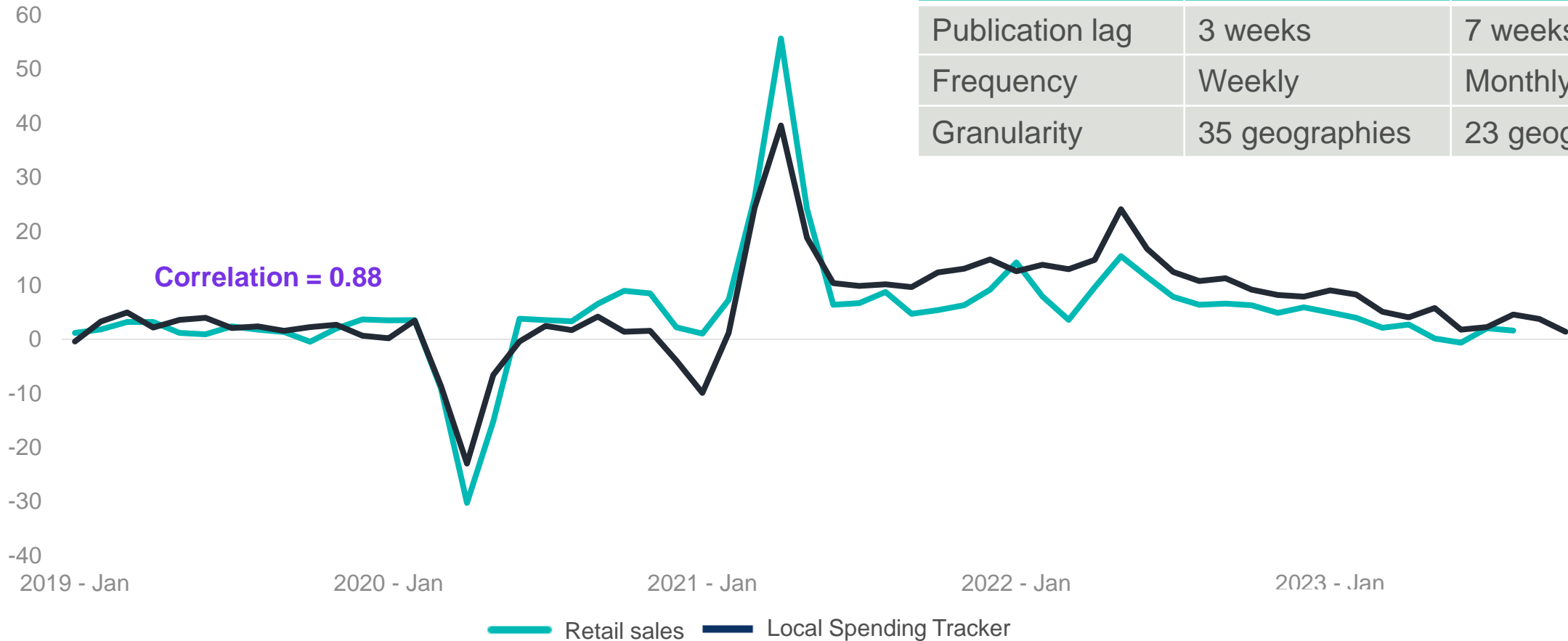% change, year-over-year

Canada

Yellowknife

- 54%

Source: BDL calculations using Moneris data.

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

Correlation = 0.88

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

— Retail sales — Local Spending Tracker

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 <u>Moneris Data Services</u>.

  "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 (<u>STapp@Chamber.ca</u>).

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