# Soft Patch in Spending Might Be Here to Stay
# Spending Tracker – August 2023

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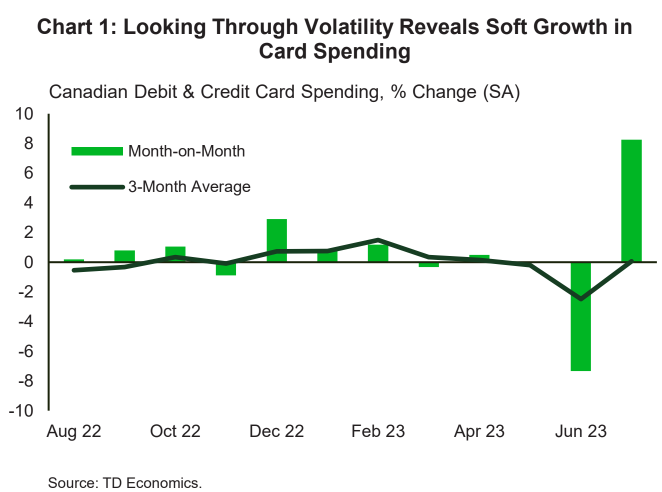
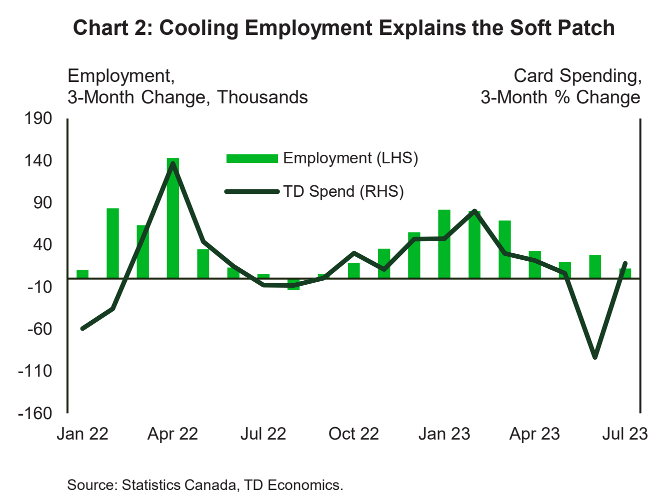
- TD's latest debit and credit card spending data suggests that consumers are tightening their purse strings. Although seasonally adjusted nominal card spending was up 8.2% month-on-month in July, it follows a steep decline in June (-7.3% m/m) and a near-zero pace of spending in the spring (Chart 1). Given the volatility in recent months, we smooth the series over a period of three-months, revealing a flat trend with the three-month average pace of growth at only 0.1% in July.
- July also saw the Federal government's grocery rebates paid out early in the month, which likely boosted the spending rebound. Thanks to this fiscal largess, spending may remain resilient for another month yet, but we expect that over the medium term, the trend will shift into a lower trajectory. Employment growth has slowed recently, which should contribute to softer spending trends. In the past, employment has been a decent guide for spending behavior, especially during the pandemic-related closures and re-openings (Chart 2).
- The see-saw pattern in spending in June and July was seen in both goods and services (Chart 3). However, a softer dynamic in late spring resulted in a relatively weaker three-month average growth in goods spending. Tepid growth in purchases at grocery stores, general merchandize shopping centers and gas stations, which collectively accounted for more than two thirds of goods spending growth, was behind the weak print.
- A closer look at the data reveals that spending on discretionary items is falling out of favour. In goods, three-month-average growth in spending on home-related items (furniture, home electronics etc.) has remained in contractionary territory for the past five months (Chart 4). This weakness aligns with what we've seen in retail sales data, which we only have through June. An upturn in housing market activity is typically followed by home-related purchases on things fur-

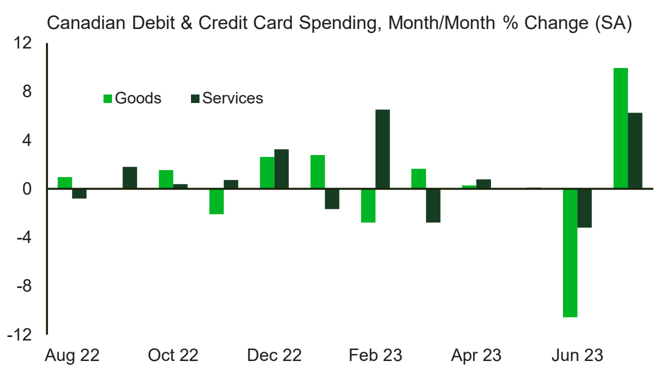


niture etc., but the turnaround in home sales earlier in the spring has yet to produce the same spending boost. These categories may have more downside potential as home sales are expected to remain under pressure for the rest of the year.

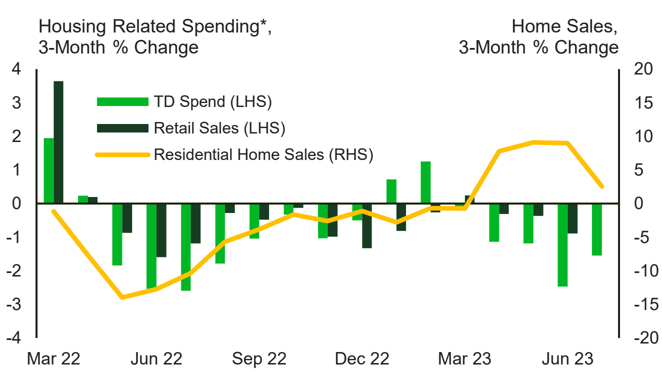
- In the services sector, recreation and entertainment spending remains the largest catalyst of activity. This category accounted for more than two thirds of the drop in services spending in June, and its rebound in July. No doubt consumers are still ready to open their wallets to see Taylor Swift and Barbenheimer, but this category's trend growth might be cresting. Ditto for transportation and travel – the other two darlings of the recent economic expansion (Chart 5). Higher price pressures might be the reason consumers are willing to hit a pause button on these activities.

**Chart 3: June-July Spending on Goods & Services Moved in Tandem**



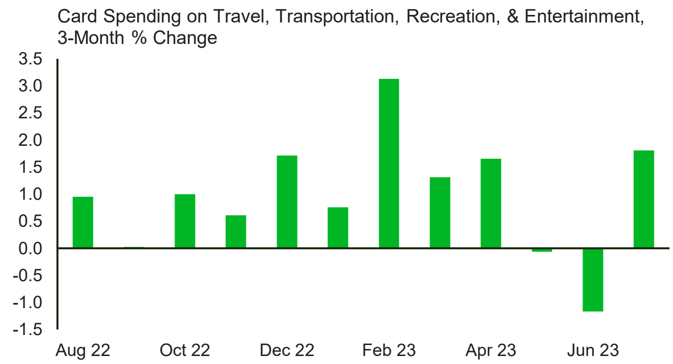

Source: TD Economics.

**Chart 4: Housing-Related Spending Fails To Respond to Home Sales**




*Includes spending at furniture, home, electronics centers, and building materials stores.
Source: Canadian Real Estate Association, Statistics Canada, TD Economics.

**Chart 5: Trend Growth on Services Spending Might Be Cresting**




Source: TD Economics.

- The only significant categories where trend growth remains positive are financial services (which includes broker-dealer receipts that respond to changes in securities markets), and miscellaneous services (which includes dry cleaning and tailoring services buoyed by return-to-office). Although the rotation into services might be coming to its end, there is still upside potential for spending growth going forward. This is because spending on services is typically supported by higher-income households who still hold an estimated $140 billion in excess deposits.
- All said, spending could by buoyed by fiscal support and excess savings in the near term. Given these cross-currents, we put a wide range of estimate on Q3 real consumer spending growth of 2.0-3.0% (annualized). Further slowing is in the cards (pun intended) thanks to higher debt servicing costs that continue to feed through the economy. Looking through the current quarter, a soft patch in spending might be here to stay.

## Disclaimer