

Consumers Give a Little Love with Year-End Purchases

Spending Tracker – January 2024

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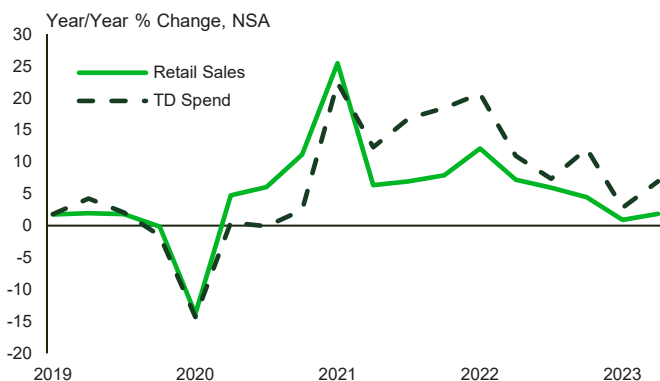
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According to the latest TD Spend data, consumer notably loosened their purse strings, possibly swayed by the holiday spirit and warm weather. Spending during the last three months of the year grew on average by 0.7% month-over-month. This change in spending dynamic helped the year finish on a high note. While TD Spend often differs from retail sales month-to-month due to variances in composition, classification, and data collection timing, it offers a reliable indicator of overall trends. Current estimates suggest that retail sales might see over 4% quarterly annualized growth in the fourth quarter of 2023. This still translates to less than 3% year-on-year growth in the last quarter, making it the smallest yearly gain in holiday sales since the pandemic (Chart 1).

Adjusted for seasonality, goods spending accounted for roughly one third of the overall increase in total spending. This uplift was primarily driven by marked growth in e-commerce, as well as spending on clothing, shoes & accessories, and food & beverages, likely spurred by holiday gift purchases. In addition, December experienced a surge in ‘miscellaneous’ store shopping, covering diverse outlets like gift shops, art galleries, and second-hand stores, which suggests a consumer shift towards diversifying onto more unconventional shopping destinations. These trends parallel equivalent retail trade categories in TD Spend data, except for strong sales at general merchandise stores (Chart 2). In addition, TD Spend data uniquely highlights a December uptick in grocery store spending, which could be a precursor to strength in upcoming retail sales data.

While there was an uptick in home sales over the past three months, surprisingly, spending on housing-related purchases did not follow suit (Chart 3). Traditionally, increased housing activity led to increased spending on furniture, electronics, and building materials, but this pattern has not been observed recently, resulting in a flat contribution to overall spending. This unexpected trend can be partly attributed to consumer caution in the face of prolonged high inflation. According to the [Canadian Survey of Consumer Expectations](#), individuals are paying closer attention to inflation and altering their spending habits accordingly. Many are reducing or postponing purchases, especially in response to their heightened perception of inflation. Furthermore, higher interest rates are dampening households’ intentions to make major purchases,

Chart 1: Spending Rebounds Towards Year-End, Marking the Weakest Holiday Season Since the Pandemic



Source: Statistics Canada, TD Economics.

Chart 2: Year-End Spending Spurred by Holiday Gift Shopping



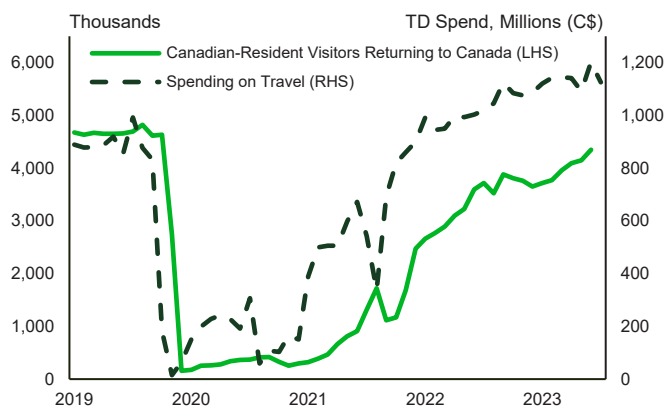
Source: Statistics Canada, TD Economics.

particularly durable goods which are often financed with loans. This cautious approach, especially in sectors reliant on retail financing, highlights the complex relationship between consumer sentiment, inflation, and spending behaviors, which will continue to stamp out goods consumption growth in 2024. Perhaps the only dynamic not captured in our data, and an exception to the general trend, is auto sales. These remain robust, driven by a rebound in production and lingering pent-up demand.

Meanwhile, services spending accounted for two-thirds of total TD Spend growth in Q4. However, the overall picture is nuanced. While pent-up demand for some services such as dining out and attending concerts endures, spending in some of these areas, especially travel, was subdued this quarter. This indicates a complex interplay between consumer desire and practical spending behaviors in the face of economic pressures. Notably, travel spending, although exceeding 2019 levels, largely reflects the impact of price increases rather than an actual increase in travel activity. Statistics Canada’s data on resident visitors returning to Canada shows that travel is still about 10% lower than pre-pandemic levels (Chart 4). This suggests that, despite a yearning for travel, budgetary constraints and ongoing economic considerations are leading to restrained spending in this sector.

On the other hand, the most significant growth was observed in recreation and entertainment, indicating that Canadians are prioritizing local and accessible leisure activities. Spending in areas such as restaurants, concerts, and movies remained robust, reflecting a preference for experiences closer to home. This trend highlights a selective approach to discretionary spending, where consumers are choosing to invest in certain types of services over others.

Chart 4: Recovery in Travel is Mostly Price Gains

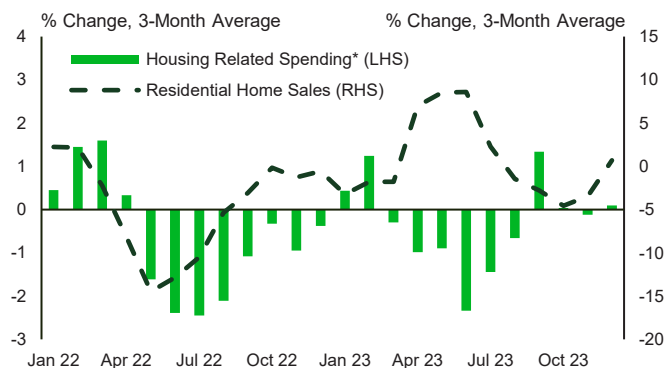


Source: Statistics Canada, TD Economics.

Bottom line

After a noticeable stall in the middle of 2023, consumer spending showed signs of revival in the final quarter, tracking at an annualized rate of 2-3%. The resurgence in spending towards year’s end suggests a regained confidence among consumers, albeit still tempered by concerns about price pressures. Looking ahead to the first half of 2024, a more restrained spending pattern is expected to prevail, with major purchases likely being postponed until there’s more clarity around economic conditions, particularly interest rates. However, [the prospect of rate cuts remains contingent](#) on the trajectory of inflation. Only if inflation shows a consistent downward trend can the Bank of Canada confidently embark on a path of looser monetary policy. Until this shift occurs, the ongoing balancing act between leaning on economic growth and maintaining price stability will continue to be a decisive factor influencing consumer behaviour.

Chart 3: Rebound in Home Sales May Fail To Reinvigorate Home-Related Card Spending



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

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