TD Economics

Card Spending Comes to a Halt in March

TD Consumer Spending Tracker - March 2023

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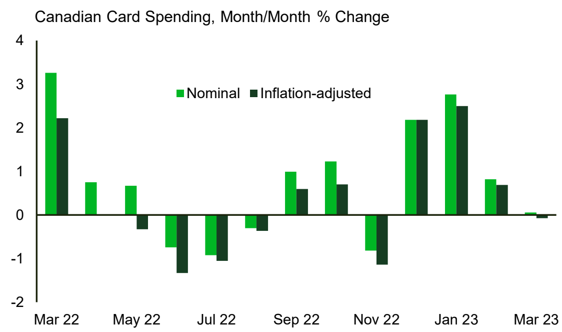
Maria Solovieva, CFA, Economist | 416-380-1195

The Thread

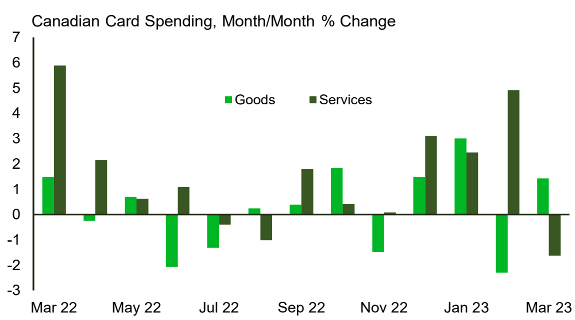
TD's latest debit and credit card spending data signals a pause in consumer spending in March. Seasonally adjusted nominal card spending edged up by 0.1% month-on-month, while the same series adjusted for inflation was down 0.1% m/m. This is a sharp cooling from an unusually strong pace of nominal and real spending growth during an uncommonly warm winter season (Chart 1). Despite this slowdown in card spending, when accounting for the most recent estimates of retail sales, personal consumption expenditure is still on track for a sizeable gain of 4% (annualized) for Q1 2023.

Chart 1: Card Spending Comes to a Halt in March



Seasonally-adjusted. Source: TD Economics.

Chart 2: Spending on Goods Picks Up In March, While Services Spending Pulls Back

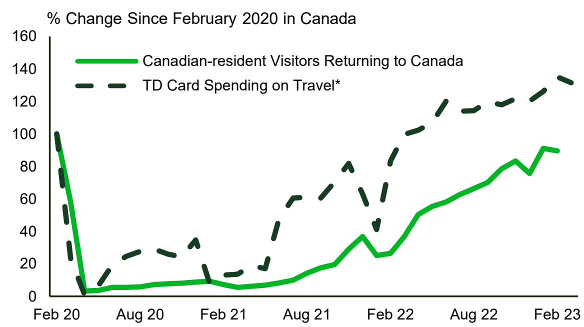


Seasonally-adjusted. Source: TD Economics.

Zooming in on the details, this month the tables turned for spending on goods and services, with the former growing at 1.4% and the latter contracting by 1.6% on the month (Chart 2). Our goods spending estimates do not include car sales (typically financed by auto loans), which account for more than a quarter of the retail spending figures released by Statistics Canada. This could be the source of divergence between our estimates and the Statistics Canada's flash estimate for a 1.4% decline in retail spending in March.

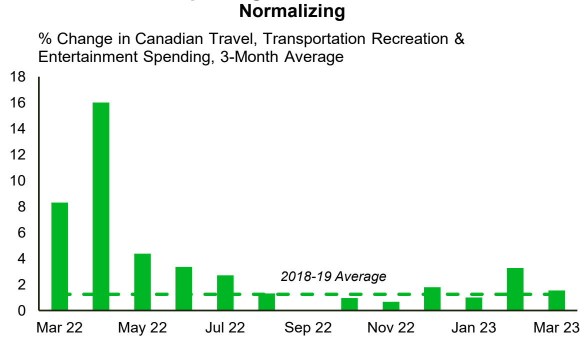
Travel was the main driver of weaker services spending in March as it declined 0.8% m/m. This slump, however, follows a large run-up in spending on this category during the first two months of the year. Nothing surprising here: travel plans for one the most popular (and, often, most expensive) family vacation periods are rarely reserved last minute, so most reservations related to March break were likely pre-paid in the winter. Families who took this time to travel internationally for the first time since the beginning of the pandemic were in for a price shock, as flights and accommodation costs were between 10 and 20% higher than in 2020. And that's despite international travel not having fully recovered from the pandemic. Canadian-resident international trips in February 2023 were 10.5% below the level of February 2020, while TD travel card spending was 30% higher (Chart 3).

Chart 3: International Travel Hasn't Recovered from the Pandemic, but Card Spending is Higher



*Spending on airfares and hotels.
Seasonally adjusted. Source: Statistics Canada,TD Economics.

Chart 4: Spending on In-Person Services is Normalizing

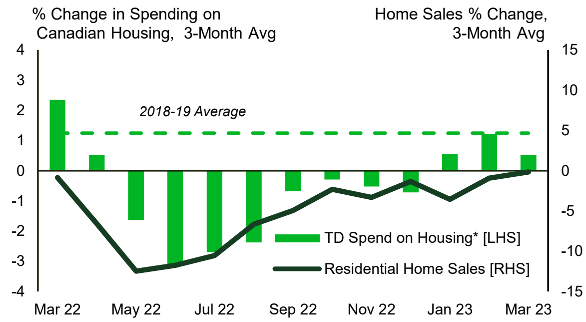


Seasonally adjusted.
Source: TD Economics.

Meanwhile, spending on other Covid-affected services (i.e. transportation, recreation and entertainment) was mixed, with transportation growing at a steady rate and recreation and entertainment losing momentum in March. When combined with the travel category, the pattern of card spending on activities, distorted by the pandemic, is starting to normalize, which we hope should lead to less volatility in services spending going forward (Chart 4).

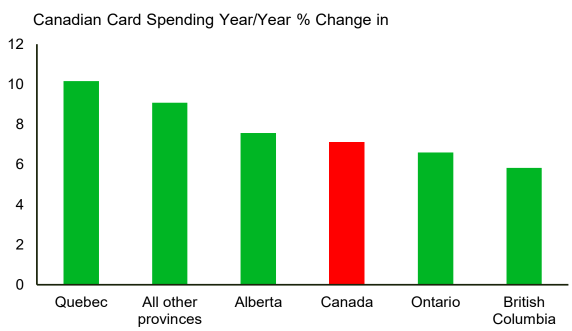
Goods-related card spending rebounded in March on the back of stronger spending at food & beverage and pharmacies & personal care stores. Meanwhile, house-related spending declined by 2.1% in March, after growing for two consecutive months. The decline helped bring back the three-month average growth rate below the pre-pandemic pace. Overall, TD house-related card spending seems to be aligned with a stabilization in housing activity and points to Canadians remaining cautious on this front (Chart 5).

Chart 5: Candians Remain Cautious on Housing-Related Spending



* Includes spending at furniture, home, electronics, and building materials stores. Seasonally adjusted. Source: CREA, TD Economics.

Chart 6: Quebec Outperforms Other Provinces in March as Fiscal Stimulus Supports Spending



Source: TD Economics.

Regionally, not seasonally adjusted month-on-month spending declined in all provinces, except at Newfoundland & Labrador, Manitoba, and British Columbia. When compared to a year-ago level, card spending in provinces with the largest weights (Ontario, BC, and Alberta), grew either below or close to the national average of 7% in March. Meanwhile, Quebec and all other provinces combined outperformed Canada's average by 3 and 2 percentage points (Chart 6). Quebec's outperformance over the past four months is notably stark and might be (at least partially) attributed to the one-time "inflation relief" cheques, sent by the provincial government in the winter.

Bottom Line: Consumer card spending showed visible signs of cooling at the end of the first quarter, providing a soft starting point for the second quarter. We are forecasting that real personal consumption expenditures will grow at a modest 1.0% quarter-on-quarter (annualized) pace. Spending on services is likely to continue to outpace spending on goods, regaining its place in consumers' hearts and budgets as pandemic distortions move further into the past. That said, we expect further slowing in consumer spending growth in the second quarter as higher debt servicing costs continue to feed through to consumers.

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