TD Economics

TD Credit and Debit Card Spend Report

Consumers Regained Their Spending Mojo, but Tariffs Cloud 2025 Outlook

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Highlights

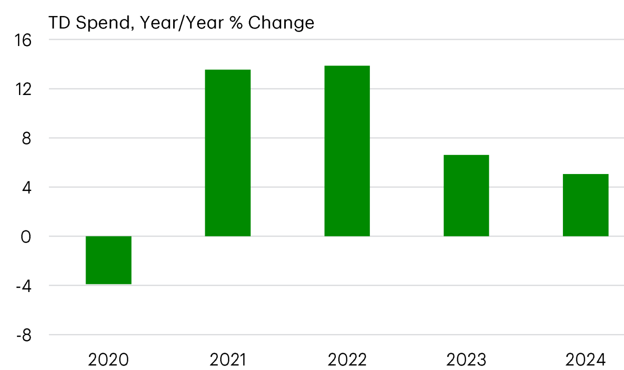
- Consumer spending momentum accelerated in Q4, aligning with our at-trend forecast for real personal consumption expenditures.
- Lower interest rates boosted home-related purchases, supporting a strong near-term outlook for durable goods. Recreation and entertainment spending was the key contributor to services spending, driven by Canadians' preference for domestic activities over international travel.
- Despite this momentum, the risk of U.S. tariffs and retaliation introduces uncertainty, posing a downside risk to our 2025 forecast of 1.7% consumer spending growth.

The latest TD debit and credit card spending data point to growing momentum, reinforcing a solid outlook for consumer spending. December data show spending growth accelerated to 7.2% year-on-year, up from November's 4.0% and October's 5.8%.

The final quarter of the year showed TD Spend outlays ended on a reasonable note. Unlike the previous quarter, where seasonally adjusted monthly volatility muddied the signal, the fourth quarter's monthly growth rates were consistently positive (albeit marginally in November). This indicates a likely solid performance for consumer spending in Q4. Despite this improvement, annual spending growth for 2024 remains the slowest in the past four years (Chart 1).

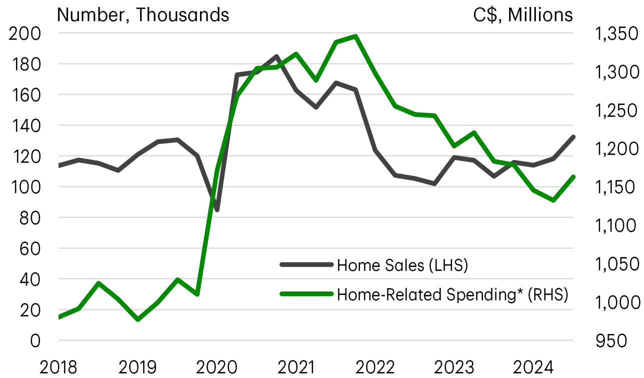
Encouragingly, growth in spending was broad-based, driven by both goods and services, with goods contributing more at the margin. Notably, home-related purchases (furniture, electronics, etc.) saw a significant acceleration, supported by looser financial conditions and a rebound in the housing market observed in October and, to a lesser extent, November (Chart 2).

Chart 1: 2024 Annual Spending Growth Was the Slowest Since the Pandemic



Source: TD Economics.

Chart 2: Home-Related Spending Rebounds As Housing Market Recovers



*Furniture, appliances, building materials & garden equipment.
Source: Canadian Real Estate Association, TD Economics.

This drove Q4 growth in home-related items to 2.7% quarter/quarter (q/q)—a rate last seen in Q3 2021. Once again, this highlights the Canadian economy's sensitivity to interest rate changes. Lower financing costs are also expected to make other durable goods, like autos, more affordable, supporting a potential rebound in vehicle sales. Overall, the outlook for durable spending appears strong.

Spending on services regained momentum in Q4 after losing steam in Q3. Spending on recreation and entertainment was the standout performer in Q4, up 6.8% q/q, while spending on travel accelerated to a 3.6% q/q pace after modest gains in earlier in the year. On an annual basis, spending on entertainment and recreation outperformed travel, growing 8% versus 7%, while also experienced a smaller deceleration compared to 2023 figures. A weakening Canadian dollar has likely encouraged Canadians to spend more domestically, shifting their budgets from international travel to restaurants and entertainment.

Services spending has been boosted by recent high-profile events like the Eras Tour in November and December, as well as the GST tax relief on prepared foods and beverages introduced on December 14, just in time for holiday gatherings with friends and family. We previously analyzed the Eras Tour's impact on spending in Ontario and now tackle the challenge of identifying whether the GST tax break influenced consumer behavior (see the text box).

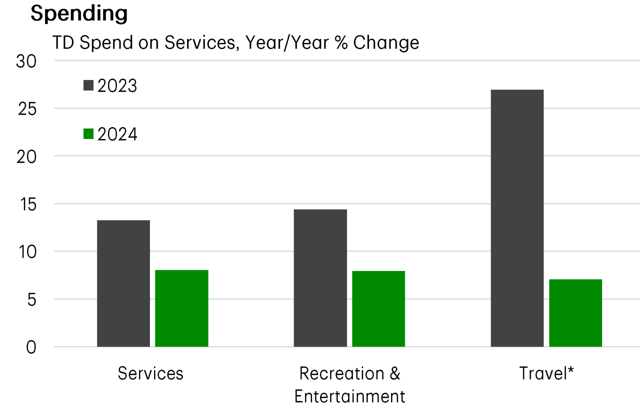
Our analysis indicates that while spending did pick up in the second half of December, this same in-month pattern occurred in the previous two Decembers. This suggests it may just be the typical holiday shopping pattern. However, we don't know whether without this relief the usual ramp up in spending might have been more muted. We will need to see results from subsequent months to see how much effect the GST holiday had on consume spending, but for now the jury is still out.

As part of our analysis, we examined year-on-year differences in spending during Boxing Day. The findings are disappointing. Clothing stores and electronics and appliance stores — the key drivers of Boxing Day sales – saw no significant uplift, assuming discount rates were similar. This year, Boxing Day served as a somber reminder of the subdued spending trends, with all major categories recording declines compared to 2023. Although, this may reflect a shift in seasonal patterns as November's Black Friday sales seem to be gaining popularity.

Bottom Line:

Consumer spending gained momentum toward the end of 2024, supported by lower interest rates, which boosted consumer confidence, and external factors, such as the GST relief. The robust finish to Q4 aligns with our above-trend growth forecast for real personal consumption expenditure (+1.9% quarter-on-quarter annualized), with a solid near-term outlook for durable goods and services. However, uncertainty surrounding potential tariffs and retaliatory measures present a downside risk to our 2025 real consumer spending growth forecast of 1.7%.

Chart 3: Travel Loses Ground as Key Driver of Services Spending



*Includes spending on airlines and hotels/resorts. Source: TD Economics.

Text Box: Evaluating the Impact of the GST Tax Relief

To assess the impact of the GST tax relief, we divided the data into two periods: a pre-period (December 1–13) and a post-period (December 14–27). Data after December 27 was excluded to avoid distortions caused by calendar differences across years. We analyzed daily year-over-year (y/y) growth rates for the entire month of December, as well as for the pre- and post-periods, to evaluate whether spending behavior shifted significantly during the post-period compared to prior years. Additionally, for the post-period, we examined whether daily y/y growth rates in December 2024 showed a meaningful deviation from historical patterns.

First, we should point out that, while TD Spend provides a relatively detailed break-down, it does not disaggregate by specific product or service type. Because not all items within a category were tax-exempt, we made assumptions about the share of exempt items in each aggregate category to complete the analysis.

Next, an adjustment was necessary to account for the tax relief, as nominal spending in categories affected by the lower (or zero) tax rate naturally reflected the discount. To correct for this, we estimated the effective national tax rate by weighting provincial tax relief according to their representation in the TD Spend data. During the post-period, the effective national tax rate fell to 2.2%, down from 12% in the pre-period. Using this adjustment, we grossed up spending in affected categories by 9.8% to better reflect underlying spending patterns. This adjustment is slightly higher than the 8.6% estimate based on retail sales weightings, reflecting our internal data's heavier weighting on spending in Ontario.