TD Economics

TD Credit and Debit Card Spend Report

Consumers Continue to Reduce Spending and Hunt for Bargains

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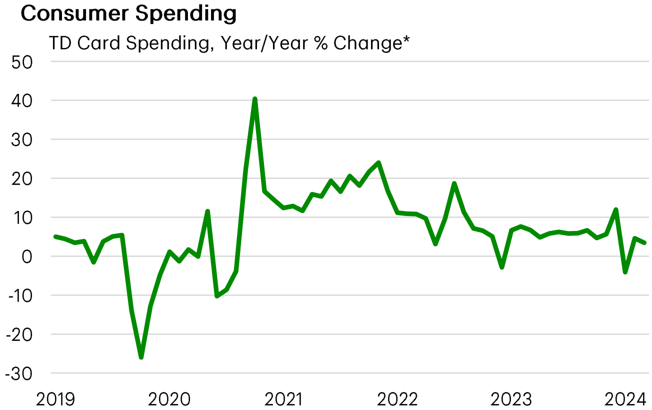
The latest TD debit and credit card spending data shows little sign of strength, reinforcing a sluggish outlook for consumer spending (Chart 1). Aggregating the data to a quarterly average cuts through monthly volatility, reveals weak consumer spending in the third quarter. This supports our view that consumer activity remains in a lethargic state, likely resulting in sub-trend growth for personal consumption expenditures in Q3.

All categories of goods spending were weak, leading to a contraction in the thrid quarter (Chart 2). Since TD's spend data primarily reflects semi-durable (e.g., clothing, tools, garden equipment) and non-durable goods (e.g., food, electricity), it suggests that these segments will weigh on total goods consumption, reported in the Statistics Canada's consumer spending data. While we expect some offset from durable spending, primarily driven by auto sales, other durable categories, like furniture and household appliances, remain stagnant.

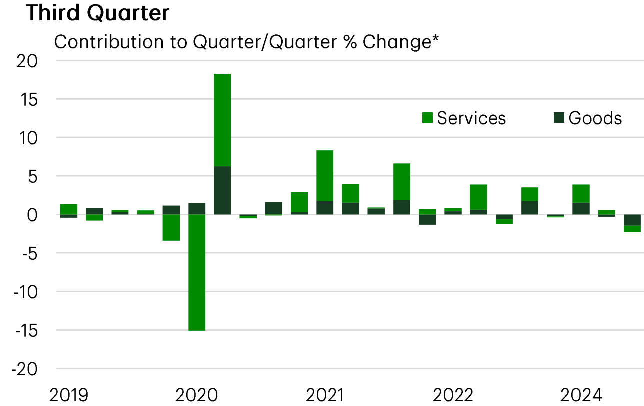
Digging deeper into the data, we find that outlays at gas stations are the biggest contributor to the decline in TD goods spending, down by more than 5% on the quarter. This decline largely mirrors the drop in gas prices over the same period. Interestingly, despite lower prices, the average monthly spend at gas stations remains unchanged at $43, implying that consumers might be taking advantage of cheaper fuel by filling up more.

Chart 1: Card Spending Points to a Sluggish Outlook for Consumer Spending



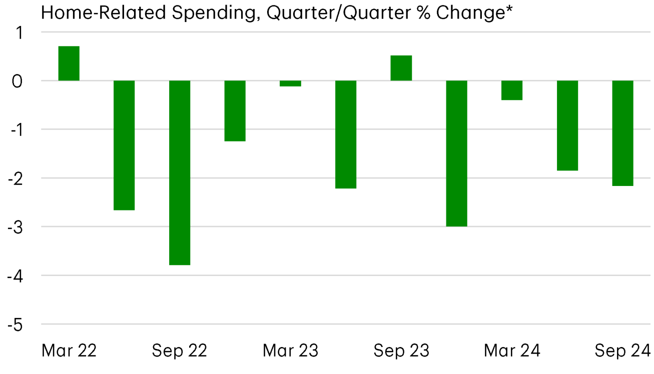
*Not Seasonally Adjusted. Source: TD Economics.

Chart 2: Goods and Services Spending Contracted in the Third Quarter



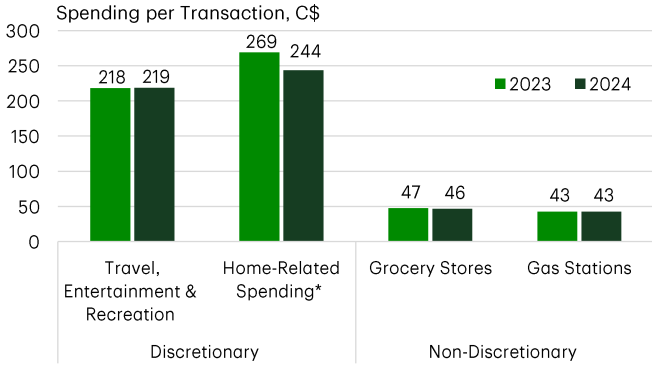
*Seasonally Adjusted. Source: TD Economics.

Chart 3: Home-Related Spending Continues To Drag On Economic Activity



*Seasonally Adjusted. Note: Home-Related Spending Includes Furniture, Appliances, Building Materials, & Garden Equipment. Source: TD Economics.

Chart 4: Canadians Look for Bargains When Shopping for Discretionary Goods



Note: Home-Related Spending Includes Furniture, Appliances, Building Materials, & Garden Equipment. Source: TD Economics.

This year's back-to-school season proved disappointing. While spending on clothing and electronics saw a boost in August, weakness in July and September resulted in an overall decline in Q3. Perhaps most telling is the persistent decline in 'home-related spending' - categories typically associated with home purchases such as furniture, appliances, and housing and gardening tools (Chart 3). These categories have been a consistent drag since the Bank of Canada began its tightening cycle. Notably, average spending per furniture transaction fell by $130, or 18%, compared to last year. Lower prices, which have fallen by roughly 2% during this time, can't explain the difference. Looking ahead, being just one quarter into the easing cycle, a revival in home-related spending is expected towards the end of 2024 and into early 2025, especially as housing activity picks up. Lower financing costs should also make other durable goods more affordable, supporting a potential rebound.

Spending on services, which had been a bright spot this year, lost its momentum in Q3 (Chart 2). Much like goods spending, most service categories are trending downward, reflecting weak consumer sentiment and their efforts to cap discretionary spending. Canadians tightened their purse strings on restaurants and entertainment, pushing the quarterly series into negative territory for the first time since Q4 2023. Travel spending, while positive in August and September, contracted for the second consecutive quarter when viewed on a seasonally adjusted quarterly basis.

Notable insights come from spending per transaction. While total outlays on travel, entertainment and recreation were down, spending per transaction remained mostly flat. This suggests that the decline this quarter is driven by lower overall demand rather than reduced spending per outing, given stable prices. The exception was lodging, where average transaction spending fell by 5%, closely tracking price declines in the traveler accommodation component of the CPI. This implies that while travelers took advantage of cheaper accommodations, they didn't opt for more luxurious upgrades. A comparison of discretionary and non-discretionary dollars spent per transaction shows that Canadians who continue to spend on discretionary areas are inclined to spend less on home-related goods, rather than cutting back on vacations and entertainment (Chart 4).

Bottom Line

TD spend data indicates weak consumer demand in the third quarter, with Canadians reducing spending and hunting for bargains, particularly on non-essentials. While the Bank of Canada has begun an easing cycle, it will take time to see meaningful effects across the economy. The full impact of easing is unlikely to be felt until the first half of 2025, when a rebound in housing activity should lift home-related purchases.

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