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MONTHLY BUSINESS CONDITIONS REPORT

FEBRUARY, 2026

ISSUE 25

Canadian Market Insights You Can Act On



Canada's retail-sales performance in 2024–25 was driven by inflation rather than by genuine consumer demand. Real (volume) retail activity remained flat to slightly negative, indicating that households were not purchasing more goods, they were simply paying higher prices for the same basket.

Understanding what sits behind those price increases is essential. Tariffs, exchange-rate movements, substitution bias, and domestic cost pressures all influence consumer prices, but the evidence shows that only one of these forces is exerting the dominant effect. Separating true cost drivers from background noise is critical for commercial planning, pricing strategy, and negotiation posture.



PROUDLY CANADIAN



IN THIS REPORT

RETAIL TRADE

Canada's 2024–25 retail-sales “growth” was almost entirely an inflation story. Real (volume) retail was flat to slightly negative, meaning consumers weren't buying more, just paying more. If retail sales are rising because prices are rising, the real question becomes: what's driving those prices?

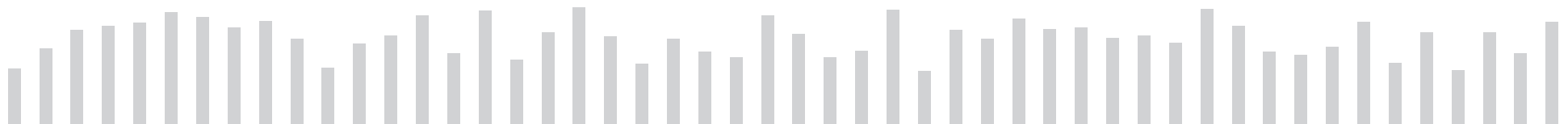
Tariffs, exchange-rate movements, substitution bias, and domestic cost pressures all play a role, but only one of them is doing the heavy lifting.

When you know which cost drivers are real and which are noise, you negotiate with suppliers and customers from a position of clarity, not concession.

DETAILED CONSUMER PRICE INDEX - APPENDIX 1

Many of the 113 CPI products listed may not directly touch members, but they illustrate the broader competitive landscape. They show which goods and services are competing for the same consumer wallet and clarify why retail “growth” in 2024–25 came from price increases rather than true volume gains.

Grounding negotiations in these underlying price drivers, rather than assumptions, strengthens your position with both suppliers and customers by anchoring the conversation in real cost dynamics.



ECONOMIC SUMMARY

DOMESTIC

- **Population** : 42 million, -0.02% December 2025
- **Consumer Price Index**: + 2.4% December 2025
- **Unemployment rate**: 6.5%, -0.03% January 2026
- **Employment Rate**: -0.1% December 2025
- **GDP**: +0.6% 3rd Quarter 2025

Note: Statistics Canada perform addition check and adjustments at the end of each quarter and year. Updates will be provided in next months report.

- West Texas Intermediate **crude oil** closed at USD \$65.21 per barrel on January 30th, up from a closing value of USD \$57.95 at the end of December. **Western Canadian Select** crude oil traded in the USD \$43.00 to \$53.00 per barrel range throughout January. The **Canadian dollar closed at 73.74** cents U.S. on January 30th, up from 72.96 cents U.S. at the end of December.
- The Bank of Canada left the target for the **overnight rate unchanged at 2.25%**. The last change in the target for the overnight rate was a 25 basis points cut in October 2025.
- Montreal-based **Bombardier Inc.** announced a new 126,000-square-foot manufacturing centre in Dorval. Bombardier said the centre represents an investment of approximately \$100 million and is set to open before the end of 2027.
- Oshawa-based **General Motors Canada** announced that Oshawa Assembly would return to two shifts of production beginning February 2nd, at which time approximately 500 employees would be placed on layoff.
- **Building permits**, December 2025: In December, the total value of building permits issued in Canada increased \$821.3 million (+6.8%) to \$12.8 billion.

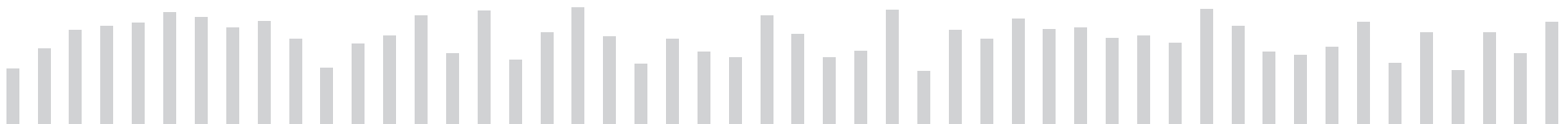
INTERNATIONAL

- The **US Federal Reserve has held the benchmark interest rate steady in a range of 3.5% to 3.75%**, pausing previous rate cuts due to stubborn inflation and a stabilizing labor market. The effective federal funds rate has hovered around 3.64%.
- The eight OPEC+ countries Saudi Arabia, Russia, Iraq, UAE, Kuwait, Kazakhstan, Algeria, and Oman announced they had reaffirmed their November 2, 2025, decision to **pause production increments in February and March 2026**.
- New York-based **Saks Global Holdings LLC** announced it had commenced a voluntary chapter 11 process with support from key financial stakeholders. Saks said the stores and ecommerce experiences across Saks Fifth Avenue, Neiman Marcus, Bergdorf Goodman, Saks OFF 5TH, Last Call, and Horchow were open and serving customers.
- Michigan-based **Dow Chemical Company** announced a plan to simplify how it operates and that it anticipates about USD \$600 million to \$800 million in severance for approximately 4,500 Dow roles.

**“CREATING A CONTEXT IN WHICH
OTHER PEOPLE CAN THINK.”**

EDWIN SCHLOSSBERG

***I bring the numbers and ideas,
and you turn them into meaning.***



ECONOMIC SUMMARY



BUSINESS CONDITIONS REPORT WEBINAR

FRIDAY, FEBRUARY 27, AT 9:00 A.M. ET

Join us for our monthly discussing deep dive into Canada's evolving business landscape. This live webinar offers analysis and background on the latest Business Conditions Report, what it means and why it might matter to your company. unpacking the data and sparking meaningful context.

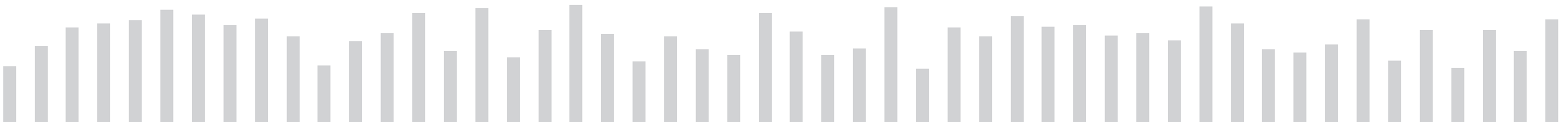
What's on the agenda:

How reciprocal tariffs, exchange-rate movements, substitution bias, and domestic cost pressures are affecting prices.

RESERVE YOUR SPOT

[Click to register](mailto:mjorgenson@centerforconsumerproducts.com) or contact Michael Jorgenson at mjorgenson@centerforconsumerproducts.com.

Change is constant—let's make sense of it together



RETAIL TRADE

Most of Canada's 2024 & 2025 retail-sales "growth" was explained by inflation. Real (volume) retail sales were essentially flat.

Nominal retail sales grew about 3.6 % in 2025, while annual average CPI rose 2.1 %, meaning that inflation accounted for over 50% of the dollar-value increase, with real volumes showing little to no improvement. The "growth" in categories like food and general merchandise reflects price effects and channel shift, not volume expansion.

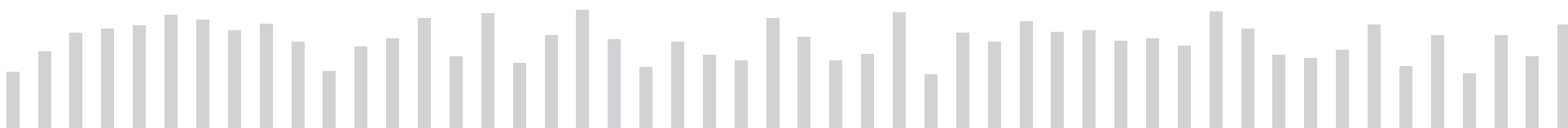
Note: The year-over-year acceleration in the all-items CPI was driven by the temporary Goods and Services Tax (GST)/Harmonized Sales Tax (HST) break that began on December 14, 2024.

In 2024 retail sales rose +1.3%, while consumer prices rose +2.4, meaning inflation more than fully absorbed the dollar-value increase.

Retail Trade Sales (x 1,000)				% Variance	
	2023	2024	2025	24-25	24-25
Retail trade	792,369,058	804,991,177	834,366,965	1.6	3.6
Building material and garden equipment and supplies dealers	46,584,263	46,331,603	47,213,898	-0.5	1.9
Furniture, home furnishings, electronics and appliances retailers	43,819,600	43,577,095	45,188,399	-0.6	3.7
Floor covering, window treatment and other home furnishing retailers	8,591,732	8,378,616	9,034,485	-2.5	7.8
Furniture retailers	14,335,014	14,066,678	14,360,007	-1.9	2.1
General merchandise retailers	104,304,069	108,321,245	112,864,121	3.9	4.2
Electronics and appliances retailers	20,892,853	21,131,801	21,793,902	1.1	3.1
Health and personal care retailers	64,749,190	67,993,552	72,092,302	5.0	6.0
Sporting goods, hobby, musical instrument, book, and miscellaneous retailers	45,990,822	45,182,622	48,721,306	-1.8	7.8
Retail e-commerce (incl. above)	45,076,403	48,852,001	50,044,407	8.4	2.4
US Annual FX Rates	0.741	0.730	0.715	-1.5	-2.0

Note: Sales to businesses such as banks and other financial companies, manufacturers and governments are considered wholesale and are not included in Retail Sales.

Statistics Canada: December 2025 results are providing an advance estimate of retail sales, which suggests that sales decreased 0.5% in December. Owing to its early nature, this figure will be revised. This unofficial estimate was calculated based on responses received from 61.3% of companies surveyed. (normal 88.0) Real (inflation-adjusted) retail sales.



RETAIL TRADE

REAL GROWTH

Subtracting CPI from nominal growth implies real retail sales grew about 1.5 % at best, but monthly volume data show a much weaker picture:

- November 2025 retail volumes were up only 1.1% year-over-year
- Bloomberg notes retail volumes were up just 1.5% from the prior year and “roughly flat since April”

INTERPRETATION

- The headline 4% nominal gain overstates consumer strength.
- Most of the increase reflects higher prices, not higher quantities purchased.
- Real retail activity was stagnant, consistent with soft labour markets, mortgage renewals, and cautious consumer behaviour.



THE EXCEPTIONS (SUCH AS THEY WERE)

Autos & Parts – Real Growth Was Positive

Even with high rates, motor vehicle and parts dealers posted real volume gains because:

- Supply chains normalized (more inventory → more units sold)
- Prices for new vehicles stabilized or fell slightly
- Pent-up demand from 2021–2023 shortages finally converted into deliveries

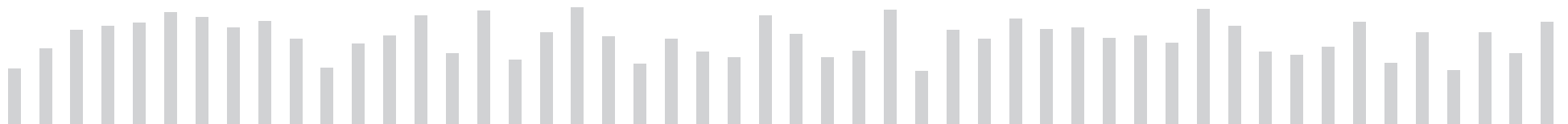
This was the only large category where real growth clearly outpaced inflation.

E-commerce – Real Growth Outpaced CPI

Online retail volumes grew faster than prices because:

- Consumers traded down from specialty stores to online channels
- Promotions and discounting were aggressive
- Digital share continued to rise even as total retail stagnated

This was a channel shift, not a consumption boom, but it did produce real growth.



RETAIL TRADE

Health and Personal Care retailers

Statistics Canada reported that core retail sales rose 1.6% in November 2025, and health & personal care retailers were one of the subsectors driving that increase. When core retail is expanding, everyday-needs categories like personal care typically benefit first.

Early 2025 saw a surge in retail spending driven by:

- Ontario's \$200 consumer stimulus cheques
- A national tax holiday
- Growth in online ordering
- Substitution Bias

Sporting Goods, Hobby, Musical Instrument, Book, and Miscellaneous Retailers

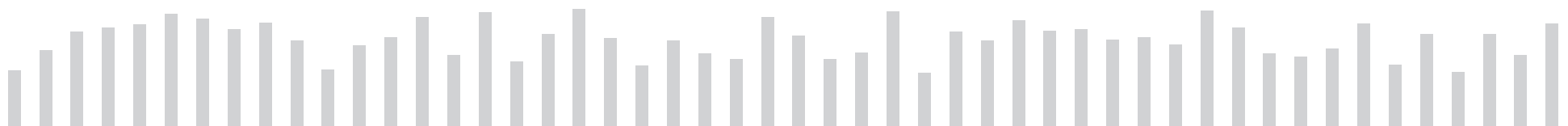
When core retail strengthens, especially after inflation cools, discretionary categories like sporting goods and hobby products typically rebound.

- Sporting goods and hobby items are highly sensitive to real income
- Substitution Bias
- Consumers had more room to resume discretionary purchases
 - Home fitness equipment
 - Outdoor recreation gear
 - Cycling and running products
 - Team sports equipment

Everything Else? Inflation-Driven

Food, general merchandise, building materials, furniture, electronics, clothing, all showed:

- Nominal growth roughly equal to CPI
- Real volumes flat or negative
- Consumers trading down, not buying more



RETAIL TRADE

US TARIFFS

US tariffs impact on headline CPI Was Small

The U.S. tariffs (steel, aluminum, and a range of retaliatory goods) barely moved headline Canadian CPI. **Tariffed goods made up less than 1% of the CPI basket but where tariffs did hit, they hit hard.**

Bank of Canada analysis found:

- High but incomplete pass-through to consumer prices
- Roughly 75% of tariff costs passed through within six quarters
- Tariffed goods saw meaningful price increases, even if the overall CPI barely moved

Examples:

- Metal-intensive goods (appliances, vehicles, construction materials) saw noticeable cost pressure
- Some food and household goods targeted by retaliatory tariffs rose faster than the CPI average

Why Tariffs Don't Fully Pass Through

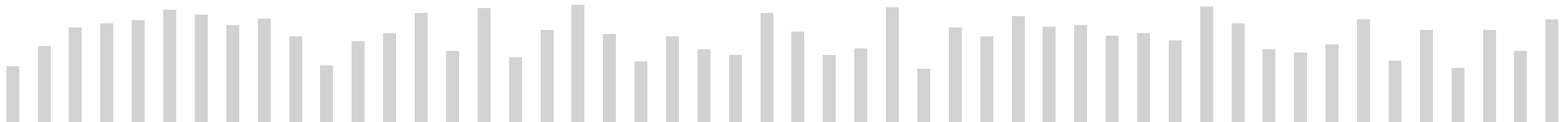
There are reasons why consumer prices don't rise one-for-one with tariffs:

- Importers sometimes absorb part of the tariff
- Retail prices adjust slowly
- Consumers substitute toward untariffed goods
- Many consumer purchases are non-traded services, diluting the overall CPI impact

Indirect Effects: Business Costs/Daily Operations and Supply Chains

Indirect costs such as parts and shipping were hit harder than direct CPI effects. Canadian businesses reported:

- Higher input costs
- Supply chain disruptions
- Lower investment
- Margin pressure



RETAIL TRADE

FOREIGN EXCHANGE RATES: CAD-USD

Research also shows that **exchange-rate changes often have a weaker effect on consumer prices than people expect.**

Reasons include:

- Firms adjust prices slowly
- Many consumer purchases are non-traded goods
- Companies “price to market,” absorbing some currency changes
- Consumers substitute toward cheaper alternatives when prices move

These dynamics mirror the tariff-rate pass-through. They are meaningful, but not dominant.

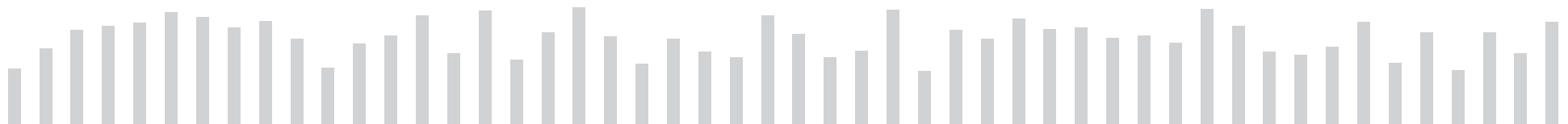
Foreign Exchange Markets react quickly because the exchange rate and inflation feed into each other: a weaker Canadian dollar pushes prices up, and higher inflation changes expectations for the dollar.

“Exchange rate affects CPI, and CPI affects the exchange rate.”

When the CAD weakens against the USD, CPI usually rises, especially in volatile items. **The Bank of Canada notes that this effect is real but not overwhelming.** It doesn’t drive the whole CPI basket, but in periods of sharp depreciation it can add roughly 0.3–0.7 percentage points to headline inflation.

Short Term (12 months) vs Long Term

Large or **persistent depreciations tend to increase pass-through**, but the relationship is not linear, small moves have small effects, big moves have disproportionately larger effects.



RETAIL TRADE

PRODUCT SUBSTITUTION

Substitution Bias typically overstates cost-of-living increases because calculations in the short term assumes consumers buy the same items rather than switching to cheaper alternatives. This is consistent with long-standing research showing that when consumers switch to cheaper alternatives, the **CPI overstates inflation because the basket's weighting (volumes) does not update fast enough.**

Estimated substitution bias in Canada is about 0.25–0.30 percentage points per year.

Sporting Goods, Hobby, Musical Instruments, Books are highly substitution-sensitive (consumers trade down aggressively). So, the bias correction meaningfully lifts real volume.

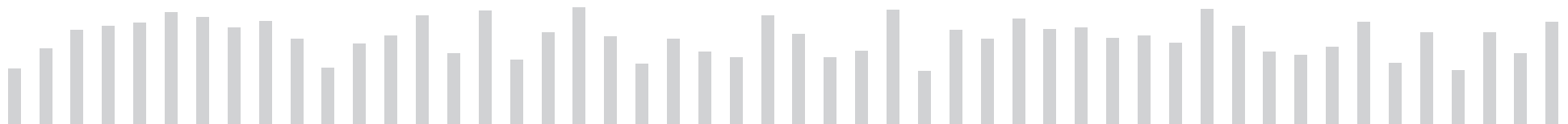
Health & Personal Care Retailers has moderate substitution behaviour (brand switching, pack-size switching). The correction is smaller in relative terms but still material for volume analysis.

Applying Canada's substitution-bias estimate (~0.28 ppts) increases 2025 real retail-sales growth by:

- Sporting goods & hobby: +0.3 ppts → real growth closer to +1.3%
- Health & personal care: +0.3 ppts → real growth closer to +2.3%
- General merchandise: +0.3 ppts → real growth closer to +0.3% to +0.8%. Substitution bias is most pronounced here (consumers trade down across multiple aisles)

Bottom line:

Official real retail-sales figures understate true volume growth across all three categories. The understatement is largest in general merchandise and most meaningful in sporting goods.



RETAIL TRADE

DOMESTIC COSTS

The Bank of Canada repeatedly highlights domestic costs as the core challenge. Cost-push inflation. When Canadian businesses face higher wages, utilities, or operating costs, they pass some of it to consumers.

Pass-through is partial but persistent.

Services inflation. Services are mostly domestic and labour-intensive. When wages rise faster than productivity, services inflation rises, and **this is the stickiest part of CPI.**

Why Domestic Cost Inflation Is Hard to Bring Down

- Wages adjust slowly downward
- Shelter costs are structurally high (mortgage interest, rents, construction costs)
- Insurance and utilities are regulated and trend upward
- Services inflation is sticky because it depends on labour markets, not global prices

This is why headline CPI can fall quickly when gasoline drops, but core CPI stays elevated until domestic cost pressures ease.

WHY CANADIAN RETAIL VOLUMES AREN'T INCREASING

The underlying trend in real (inflation adjusted) retail volumes remains negative. This is because volumes are driven by **one off factors**, not genuine demand strength. (TD Economics)

• Consumers Feel Financially Worse Off

The Bank of Canada's consumer survey shows households are becoming more pessimistic about their finances, which directly suppresses discretionary spending.

Soft sentiment = fewer purchases = weak volumes.

The biggest drag is food: consumers visit grocery stores more than any other retailer and see persistently high prices, and pull back on everything else. That constant exposure shapes their perception of affordability and triggers broad pullbacks in non-essential categories.

Retailers report that shoppers are:

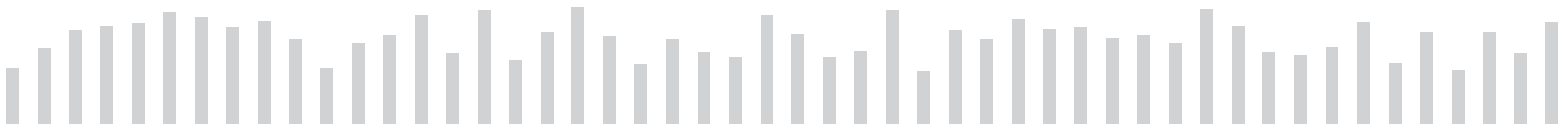
- delaying purchases
- trading down to cheaper brands or private label
- reducing discretionary categories altogether
- shifting spending toward services instead of goods

This behaviour shows up as **flat or declining volumes**, even when dollar sales look stable.

Bottom Line

Canadian retail volumes aren't rising because **households are financially strained, sentiment is weak, and temporary monthly swings mask a persistent downward trend in real demand.** Inflation and high interest rates are absorbing spending power, and neither brick and mortar nor ecommerce is generating enough momentum to lift volumes.

Retail volumes aren't growing because Canadian households are squeezed, sentiment is weak, and inflation are suppressing real purchasing power. The apparent stability in nominal sales masks a persistent decline in real demand.

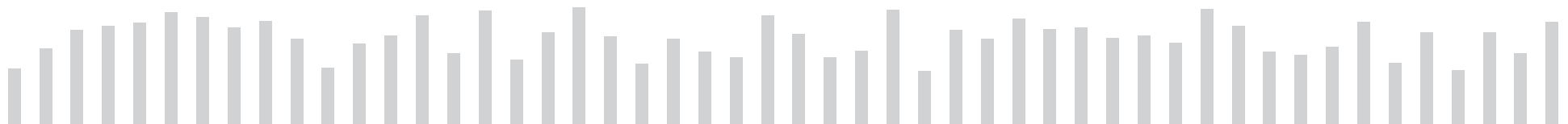


APPENDIX 1 — DETAILED CONSUMER PRICE INDEX

CONSUMER PRICE INDEX (1 OF 2)

Products	% Variance	
	23-24	24-25
Household operations	-1.3	2.4
Communications	-9.3	1.7
Telephone services	-12.5	-0.6
Cellular services	-16.7	-1.7
Postal and other communications services	0.4	21.1
Internet access services	-5.8	2.9
Digital economy services	-7.9	1.4
streaming, software subscriptions, and digital content.		0.0
Child care and housekeeping services	0.7	-2.2
Household cleaning products	0.3	0.8
Detergents and soaps (other than personal care)	-0.6	-0.5
Laundry detergents and soaps	0.8	0.4
Detergents and rinse agents for dish washing	-2.5	-1.7
Other household cleaning products	0.8	1.7
Household cleaning and polishing products	-0.6	1.2
Bleach and other household chemical products	2.0	2.7
Fabric softener	-0.3	-0.2
Paper, plastic and aluminum foil supplies	-2.3	4.0
Paper supplies	-2.7	4.9
Household paper supplies	-4.2	5.0
Stationery	3.8	4.2
Plastic and aluminum foil supplies	-1.3	1.0

Products	% Variance	
	23-24	24-25
Other household goods and services	2.4	3.4
Pet food and supplies	-1.1	-1.5
Seeds, plants and cut flowers	-0.2	4.2
Other horticultural goods	3.5	5.6
Other household supplies	0.1	-1.0
Other household services	4.5	4.9
Financial services	2.5	3.8
Household furnishings and equipment	-0.5	0.3
Furniture and household textiles	-0.8	0.3
Furniture	-1.1	0.7
Upholstered furniture	-2.6	-0.9
Wooden furniture	-1.2	2.6
Other furniture	1.2	1.7
Household textiles	0.9	-1.5
Window coverings	0.9	-1.6
Bedding and other household textiles	0.7	-1.9
Household equipment	-1.2	0.0
Digital computing equipment and devices	-9.1	-6.7
Household appliances	-1.8	0.4
Cooking appliances	-2.9	0.2
Refrigerators and freezers	-3.5	0.1
Laundry and dishwashing appliances	-1.5	1.6
Other household appliances	-0.4	0.4

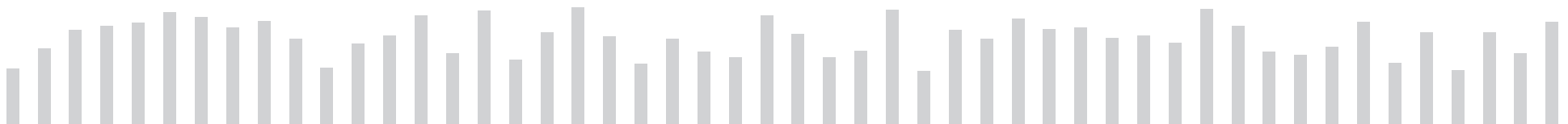


APPENDIX 1 — DETAILED CONSUMER PRICE INDEX

CONSUMER PRICE INDEX (2 OF 2)

Products	% Variance	
	23-24	24-25
Non-electric kitchen utensils, tableware and cookware	-9.1	-2.3
Tools and other household equipment	1.1	0.3
Household tools (including lawn, garden and snow removal equipment)	1.0	0.4
Other household equipment	1.2	0.3
Services related to household furnishings and equipment	4.5	2.2
Gasoline	-0.2	-8.6
Health care	3.0	2.7
Health care goods	2.2	1.6
Medicinal and pharmaceutical products	1.7	0.9
Medicinal cannabis	3.6	-0.6
Non-prescribed medicines	1.5	0.7
Eye care goods	5.0	4.1
Other health care goods	-0.2	0.9
Health care services	4.1	4.2
Eye care services	3.3	2.2
Dental care services	3.6	4.7
Other health care services	4.8	4.1
Personal care	3.3	2.4
Personal care supplies and equipment	2.6	1.6
Personal soap	3.0	1.5
Toiletry items and cosmetics	3.4	1.7
Oral-hygiene products	1.0	0.9

Products	% Variance	
	23-24	24-25
Recreation	0.1	1.2
Recreational equipment and services (excluding recreational vehicles)	-2.1	-0.4
Sporting and exercise equipment	-1.0	6.4
Toys, games (excluding video games) and hobby supplies	1.8	-1.2
Photographic equipment and supplies	0.4	1.1
Other recreational equipment	-2.0	2.4
Recreational services	4.3	8.3
Home entertainment equipment, parts and services	-5.1	2.4
Audio equipment	0.5	-1.6
Video equipment	-5.5	-3.6
Purchase of digital media	-7.6	22.7
Travel services	-1.1	-0.1
Video and audio subscription services	2.2	5.9
Other cultural and recreational services	3.7	5.3
Education and reading	2.2	1.6
Education	2.5	1.6
Tuition fees	2.3	1.8
School textbooks and supplies	3.6	1.9
Other lessons, courses and education services	2.9	0.1
Reading material (excluding textbooks)	0.8	1.8
Newspapers	5.6	8.4
Magazines and periodicals	3.9	2.2
Books and reading material (excluding textbooks)	-2.8	-0.6





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CFCP MARKET INTELLIGENCE REPORT

If you have questions about this report or would like to explore some areas more in-depth or get more information on these and other reports, please contact:

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