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Canadian retail (Apr, May adv.): Signs of restrengthening

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Retail sales (period/period % chg)	21:Q3[1]	21:Q4[1]	22:Q1[1]	Feb	Mar	**Apr**	**Apr Y/Y**
Total retail sales	11.8	7.7	12.7	0.1	0.2	0.9	9.2
• Vehicle & parts dealers	5.4	6.8	2.0	-4.2	-6.2	-0.3	-3.6
• Total ex-vehicle & parts dealers	14.3	8.0	16.8	1.7	2.6	1.3	14.1
Total real retail sales	5.9	0.2	3.1	-0.7	-0.7	0.9	2.0

Source: Statistics Canada

- Following a couple of sluggish months, retail sales appear to be strengthening again despite the headwinds from strong inflationary pressures and consumers raising spending on services. Solid increases in April and May suggest that consumer spending on goods is picking up again which, combined with supply issues and low inventory levels, will keep the Bank of Canada anxious about the future path for inflation and on track to hike interest rates aggressively for the time being.
- Headline sales for April were up 0.9% (consensus +0.8%), with the advance in volumes matching that headline print. Excluding autos, sales were up by 1.3% (double the consensus of +0.6%), which built further on a strong and upwardly revised 2.6% gain in the prior month. Core retail sales, which exclude autos and gasoline, rose by 1.0% in April. While the volume of headline sales rebounded in April, that came off the back of two consecutive declines and sales are only 2% higher than they were a year ago.
- Sales were particularly strong in general merchandise (+4.2%) stores during April, and there was also a large advance in miscellaneous store retailers (+11%). That, as the name suggests, covers a wide range of different stores. However, one area included in that is office supplies and stationary, so this could be picking up some increases in spending linked to return to office plans. Despite a decline in prices during the month, sales at gasoline stations were up by 3%, due to a 5.4% increase in volumes.
- Partly offsetting advances in those areas, building materials (-4.3%) saw a decline as higher interest rates take a bite out of building and renovation activity. Food and beverage stores also saw a modest decline, which makes sense as spending at bars and restaurants continues to recover. Auto sales also fell slightly (-0.3%), as a decline in new car sales wasn't quite offset by an increase in used car purchases.
- The advance reading for May suggests a headline increase of 1.6%, however inflationary pressures were stronger that month due to surging gas prices, and because of that the result will look less impressive in real terms.

Implications & actions

Re: Economic forecast — With today's figures suggesting that demand within the economy remains strong, even in areas where spending may have been expected to moderate as households reoriented resources towards services, the Bank of Canada will remain on track to hike aggressively to try and reduce excess demand. However, overall monthly

[1] Annualized.

GDP growth for April is still likely to be fairly muted (in line with the advance estimate of +0.2% m/m), with gains in manufacturing and retail partly offset by declines in wholesale and real estate activity.

Re: Markets — Even though the advance estimate for May was solid, the near-consensus April print meant that there was little market reaction to today's release.