

Economics

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Canadian retail (Apr, May adv): Solid but not spectacular

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Retail sales (period/period % chg)	22:Q3	22:Q4	23:Q1	Feb	Mar	Apr	Apr Y/Y
Total retail sales	-3.0	3.8	2.9	-0.3	-1.5	1.1	2.9
• Vehicle & parts dealers	5.9	9.5	16.7	1.1	-4.3	0.5	8.6
• Total ex-vehicle & parts dealers	-5.9	1.9	-1.6	-0.8	-0.4	1.3	1.1
Total real retail sales	-2.6	1.4	4.4	-0.7	-1.1	0.3	1.1

Source: Statistics Canada

- The Canadian consumer continued to defy expectations of a slowdown in April, with retail sales rising by an above-consensus 1.1% (consensus +0.4%). However, the gain in sales was less impressive in volume terms, and only offset part of the weakness seen in the previous two months. As such, while today's data leans towards another 25bp move from the Bank of Canada, possibly sooner than we were previously anticipating, it doesn't seal the deal quite yet.
- The gain in sales was led by general merchandise and food/beverage, meaning that core retail sales (excluding autos and gasoline) rose by a robust 1.5% on the month. While the increase in food & beverage stores partly reflected higher prices, volumes were also up by 1%. That reflected the fourth consecutive volume gain, although this could be a sign that households are once again reverting more towards eating at home rather than eating out, with restaurant spending data for April to be released this Friday.
- Not all sectors posted sales growth during the month, with furniture, electronic and appliance retailers seeing a decline. However, this followed four months of volume increases in this area, and sales remain off the lows seen late last year when resale activity within the housing market was at its most depressed.
- By province, Ontario saw the largest increase in April, with sales rising by 1.3%. However, that simply represents a little bit of catch up following some weaker months, and over the past year the 0.6% increase in retail sales in the province would represent a decline in inflation-adjusted terms.
- The increase in overall sales was primarily the result of higher prices, with volumes up by a much less robust 0.3%. Relative to a year ago, sales volumes are up by a modest 1.1%, which would represent a decline in per capita terms given the strong population growth seen during that period.
- The flash estimate for May suggested that sales increased by 0.5%, although this could also have been partly flattered by price increases.

Implications & actions

Re: Economic forecast — While today's data were better than expected, in volume terms the level of retail sales in April was below the average for Q1 as a whole, suggesting that consumer spending on goods is still likely to be a small drag on Q2 GDP. However, consumer spending may not be easing enough to prevent the Bank of Canada from raising interest rates once more, potentially earlier than we were previously anticipating.

Re: Markets — Bond yields climbed and the Canadian dollar appreciated on the better-than-expected economic data.

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