

Economics

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Canadian retail sales (May, Jun adv); Bouncing back

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Retail sales (period/period % chg, quarters are annualized % chg)	25:Q3	25:Q4	26:Q1	Mar	Apr	May	May Y/Y
Total retail sales	0.7	1.6	8.9	0.8	0.4	1.0	5.9
• Vehicle & parts dealers	-6.0	-4.4	6.5	-0.2	1.6	0.7	2.5
• Total ex-vehicle & parts dealers	3.4	3.9	9.8	1.2	0.0	1.2	7.2
Total real retail sales	-1.0	-2.2	5.4	-0.4	-0.2	0.3	1.3

Source: Statistics Canada

- Canadian retail sales volumes appear to have held up better than expected in the second quarter against the backdrop of high gasoline prices and no population growth. A modest rebound in May and potentially a stronger gain in June (as hinted at by the advance estimate), should offset earlier declines and leave goods consumption broadly flat relative to the first quarter. Looking ahead, enhanced household benefits were expected to support increased spending in the second half of the year, although the rebound seen recently in gasoline prices will at least partly offset that and start to restrict any pick up in discretionary spending.
- Nominal sales increased by 1.0% in May, in line with the consensus expectations and the advance estimate, with gasoline sales linked to higher pump prices once again a major contributor. However, core sales (ex auto and gasoline) posted a 0.9% advance to offset the decline seen in the prior month, with general merchandise, sporting goods and food & beverage stores all contributing.
- Overall retail sales volumes increased by 0.3% on the month, led by the rebound seen in core retail sales. Potentially linked to a modest upturn in housing market activity, retail sales volumes in furniture and building materials rose to their highest levels in six and three months respectively. Volumes of sales at gasoline stations fell on the month to partly offset increase in prices.
- The advance estimate for June pointed to a 0.4% increase in headline sales, which will likely look stronger in volume terms given the decline in gasoline prices seen that month. For Q2 as a whole, sales volumes appear to be little changed relative to the first quarter, which against the backdrop of the sharp rise in gasoline prices and no population growth is actually quite a positive result.

Implications & actions

Re: Economic forecast — Overall, retail sales appear to have ended the second quarter on a positive note, meaning that for Q2 as a whole goods consumption is unlikely to be the drag on GDP that it earlier appeared it would be. Looking ahead, expanded household benefits will support incomes and spending in the second half of the year, but the recent rebound in gasoline prices will limit the extent of any pick up in retail sales volumes.

Re: Markets — Canadian bond yields were already rising due to the upward move in oil prices, and that trend continued following the data release. The Canadian dollar was little changed relative to the US\$.

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