Economic Flash!

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Retailing Picks Up, Inflation Less So

	17:Q3*	17:Q4*	18:Q1*	Jan	Feb	**Mar**	**MarY/Y**
Total Retail Sales	1.7	8.9	-1.4	0.3	0.5	**0.6**	**4.1**
Vehicle & Parts Dealers	-1.0	14.7	-4.5	-1.7	2.0	**3.0**	**4.9**
Total ex Vehicle & Parts Dealers	2.7	6.8	-0.3	1.0	0.0	**-0.2**	**3.7**
Total Real Retail Sales	-1.6	4.1	-4.0	-0.1	0.5	**0.8**	**1.4**

** annualized*

- Retail sales gained momentum in March, but it's not yet clear that the earlier doldrums in shopping are fully behind us. Retail volumes should provide a decent bump to economic growth in March while leaving expected growth for Q1 unchanged at 1.7%. But looking further back, volumes at retail outlets are no higher than in the middle of last year and down 1% (not annualized) in Q1 as a whole. Looking ahead, consumers are still facing more of the squeeze from higher interest rates as mortgages come due for resets. Combined with today's April CPI figures which were in line with consensus, we still expect the BoC to pass on a hike later this month, leaving opportunity for the data to improve by their July meeting.
- Headline retail sales advanced 0.6% on the month, while the ex-autos number posted 0.2% contraction. Food (-1.2%) and gasoline (-1.9%) sales contributed to the weakness in the ex-autos figure, with higher gasoline prices thwarting volumes at the pump, something is likely to continue into Q2 on account of higher crude prices.
- Auto sales advanced by a robust 3.0% but since vehicles sales have a lower value added component than other retail categories, the advance will be diminished in the March GDP figures. Going forward, rising interest rates will weigh on affordability in the auto market.
- Amongst the other retail components, the results were mixed. Building materials contracted (-0.4%) after a standout prior month, and should moderate in the months ahead given the cooling in housing markets. Furniture sales outperformed (3.9%), while retail e-commerce activity remained robust, rising a hearty 11.1% y/y.
- Separately, today's April CPI numbers came in largely in line with consensus. Headline CPI advanced by 0.3% (but a mere 0.1% seasonally adjusted), leading the yearly rate a tick lower to 2.2%. The BoC's core inflation indicators continue to hover around 2.0%, so the underlying trend is right where the central bank wants it. Although we see headline inflation moving up in the next few months (helped by gasoline), growth data rather than on-the-ground CPI readings will have more impact on the timing of central bank rates hikes in the coming quarters.

Implications & Actions

Re: Economic Forecast — The pickup in consumption at the end of Q1 leaves growth tracking 1.7% for the quarter, but provides better momentum heading into Q2. With Q1 GDP comfortably topping the Bank of Canada's forecast of only 1.3%, a July hike is still likely as long as the coming month or so of data put Q2 tracking measures north of 2% again.

Re: Markets — CAD weakened following today's data and 2-year yields are down relative to yesterday's close.