



Economic Flash!

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Canadian Retail Sales & CPI Outshine Expectations

	17:Q3*	17:Q4*	18:Q1*	Mar	Apr	May	MayY/Y
Total Retail Sales	1.7	8.9	-1.9	0.8	-0.9	2.0	3.6
Vehicle & Parts Dealers	-1.0	14.7	-7.1	2.8	-3.8	3.7	2.1
Total ex Vehicle & Parts Dealers	2.7	6.8	0.1	0.0	0.2	1.4	4.1
Total Real Retail Sales	-1.2	4.0	-4.5	0.9	-1.1	2.0	0.8

- Despite all the risks facing Canada's economy, retail sales and CPI were both able to outshine expectations today. Following a month in which weather kept shoppers at home, sales more than made up for the lost ground, blowing by the street's expectations. Inflation also showed up hotter than anticipated and is now running at its fastest pace in six years. In light of today's data, there is a growing possibility that the Bank of Canada will be forced into action once more this year. But that will be heavily dependent on incoming growth readings and news on the trade front, which still likely leaves central bankers taking a cautious approach.
- Headline retail sales advanced 2.0%, doubling the consensus forecast. Volumes were also up 2.0%, with gains relatively broad-based. The surprise was largely driven by a stronger than expected ex-autos reading which blew past expectations with a 1.4% advance versus the 0.5% consensus estimate. Adding to the good news, sales in April were also revised three ticks higher.
- Better weather appears to have played a major role in both the strong headline and stripped down readings for May. A return of shoppers following April's unseasonable weather saw auto sales rise, though that was factored into expectations based on unit auto sales data. Gasoline showed strength as drivers returned to the roads boosting sales volumes. Building materials were also a major contributor, likely the result of much better building conditions. While sales advanced in seven provinces, it was Ontario and Québec, the hardest hit by weather in the prior month, which raced ahead in May.
- Separately, headline CPI rose 0.1% NSA, in line with our call, but a tick above the consensus forecast. That drove an acceleration in inflation to 2.5%, the strongest pace since 2012. The advance was largely attributable to a turnaround in food prices which had limited gains in the index for the better part of the year. Indeed, excluding the volatile food category, the index would have been flat on the month. The Bank of Canada's core common component also didn't budge from the 1.9% it has been tracking since February.

Implications & Actions

Re: Economic Forecast – Today's retail sales figures will support a very healthy gain in monthly GDP and see second quarter growth tracking above 2½%. Despite the beat on headline inflation, the outlook for prices hasn't changed much given that today's print was driven largely by the volatile food category. The numbers do raise the likelihood that the Bank of Canada moves again this year, but central bankers would need to see growth hold up in the face of a number of headwinds to pull the trigger.

Re: Markets – Following today's releases the currency gained ground and fixed income sold off as expectations increased for another Bank of Canada move in the coming months.

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