



# Economic Flash!

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## Canadian Retail Sales: Better Than the Headline

Per/Per % chg	09:Q4*	10:Q1*	10:Q2*	Apr	May	Jun	Jun Y/Y
Total Retail Sales	6.2	9.1	-3.3	-2.3	-0.4	<b>0.1</b>	<b>3.8</b>
Vehicle & Parts Dealers	12.5	-0.6	-3.9	-5.0	-0.5	<b>2.1</b>	<b>6.2</b>
Total ex Vehicle & Parts Dealers	4.6	12.0	-3.1	-1.5	-0.3	<b>-0.5</b>	<b>3.2</b>
Total Real Retail Sales	3.7	6.6	0.3	-2.2	0.3	<b>0.9</b>	<b>4.5</b>

\* annualized

- Canadians spent less to buy more in June. The meager 0.1% increase in retail sales fell short of expectations, although that was entirely due to lower prices, particularly for autos and gasoline. The details of the retail report were in fact much more upbeat, with a 0.9% gain in real terms, as Canadians took advantage of discounts. The strong retail volumes adds to decent readings for real manufacturing in June and suggests output growth of around 0.3% for the month, keeping Canada on track for a 2.6% annualized print for Q2 as a whole.
- As expected autos drove sales in June. The latest new vehicle sales report had suggested a healthy 2.5% increase in volumes. But lower overall prices meant that new car dealerships only saw a 2% gain in revenues. That gain, coupled with strong growth in revenues from used car sales and auto parts, caused the broader 'vehicles and part dealers' category to rise 2.1% after two consecutive monthly drops. July is also shaping up as a good month for dealerships if the preliminary data on unit auto sales (+1%) is any guide.
- Ex-auto sales were also weaker than expected (down 0.5%), primarily because of slumping pump prices which caused receipts at gasoline stations to plunge 2.7%. As a result, gasoline's share of total retail sales dipped slightly to 10%. Excluding gasoline and autos, retail revenues were roughly flat. Of note is the strong gain, for the second month in a row, in the 'furniture and home furnishings' category. However, that uptrend is likely to pace down a bit in coming months given the flagging housing market. Sales of electronics and appliances, which have averaged less than 0.3% m/m gain this year, soared over 5% in June, the highest monthly increase in nine years. The soccer World Cup may have been a factor in prompting purchases of items like big screen TV's. Those gains helped offset the price-induced declines in other ex-autos categories.
- Retail performance was mixed across the country with strong gains in Nova Scotia (perhaps as consumers tried to bring forward purchases before the 2-point increase in the Harmonized Sales Tax in July) and decent gains in BC and Ontario in the month before the HST was implemented in those provinces. All other provinces saw flat or lower retail sales compared to May. Thanks to June's strong gains, Nova Scotia took the lead among provinces, with sales up 6.3% from year-earlier levels.
- The contribution of consumers to Q2 GDP will likely be much smaller than in the preceding quarter. The second quarter's flat retail volumes was essentially a giveback from Q1's unsustainable annualized pace of 6.6%. But putting the two quarters together, sales have been quite solid compared to the average in

the early stage of the recovery. That's consistent with the acceleration in the rate of job creation that we saw as the recovery took hold.

## Implications & Actions

**Re: Economic Forecast** — The strong advance in retail volumes adds to gains in manufacturing, promising a healthy print for June's GDP (out next week). Overall, output may have grown at roughly 0.3% in the month, keeping Canada on track for a 2.6% annualized print for Q2 as a whole. That's a little under the Bank of Canada's forecast, but hardly a signpost of recession risks. There is enough momentum for the Bank of Canada to carry on with a final rate hike for 2010 in September.

**Re: Markets** — Markets are seemingly discarding the strong retail volumes and focusing on the soft headline, providing momentum to the C\$'s slide and pushing bonds higher.

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