

Retail Sales: More Than Meets the Eye

Canadian retail sales nudged up just 0.1% in June, a smaller-than-expected gain after declines in the two prior months. Adding insult, May's drop was revised weaker to -0.4% (from -0.2%). However, June's soft result can be explained away by a drop in prices, as volumes were surprisingly sprightly at +0.9%. (Notably, that is the fifth month in a row that retail prices reportedly declined, while the CPI has shown only one decline in goods prices over those five months (June)). Gasoline prices fell nearly 3% alone in the month, taking down service station receipts by 2.7%. That factor was a prime reason ex-auto sales fell heavily in June, although there were also declines in clothing and drug stores. Besides autos, one clear strong point was the 3.6% pop in furniture & electronics (+5.2% in the latter alone), as the start of the World Cup no doubt juiced sales of big screen TVs.

One notable regional wrinkle was a 3.1% surge in Nova Scotia, as shoppers rushed to beat a 2-point hike in the HST at the start of July. Aside from that province, sales were down fractionally.

The 0.9% rise in volumes points to a monthly GDP gain a bit above 0.1%, and puts some upside risk to our call of 2.3% (a.r.) for all of Q2. Still, note that sales volumes just barely grew in Q2 (0.3% a.r.), after average growth of nearly 6% in the four prior quarters, when the economy first pulled out of recession. More broadly, the days of steady high-side surprises in Canada's economic indicators are long over.

| (seasonally adjusted) | (month/month % change) | | | (% change : a.r.) | |
|------------------------------------|------------------------|------|------|-------------------|----------|
| | Jun | May | Apr | 3-month | 12-month |
| Total | 0.1 | -0.4 | -2.3 | -9.8 | 3.8 |
| Ex. Auto Dealerships | -0.4 | -0.5 | -1.6 | -9.5 | 3.1 |
| Auto Dealerships | 2.2 | 0.3 | -5.3 | -11.2 | 7.2 |
| Gasoline Stations | -2.7 | -2.8 | -3.2 | -29.6 | 6.7 |
| Food | -0.1 | 0.6 | -0.5 | 0.0 | 1.6 |
| Drugs | -1.0 | 1.4 | 0.4 | 3.2 | 2.4 |
| Clothing & Shoes | -0.7 | 1.7 | -5.4 | -16.9 | 5.3 |
| Furniture & Electronics | 3.6 | 0.6 | 0.1 | 18.6 | 7.7 |
| Total (volume-terms) | 0.9 | 0.3 | -2.2 | -4.2 | 4.5 |

The Bottom Line: A steady decline in prices is making Canadian retail activity look even softer than the moderate underlying slowdown in consumer spending. Retail prices have actually declined over the past year, masking a solid 4.5% y/y rise in sales volumes. Of course, both prices and volumes matter for retailers, so it's cold comfort that volumes are rising partly because prices are falling. Looking ahead, further sales gains will likely be modest as income growth remains subdued, households have already cut into savings rates, and consumer confidence is now labouring.

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