Canadian Retail Sales Improve, But Still Soft

Canada, nominal retail sales, m/m%, headline / ex-autos, February:
Actual: 0.8 / 0.6
Consensus: 0.4 / 0.2
Scotia: 0.3 / 0.2
Prior: -0.4 / -0.6 (revised from -0.3 / 0.1)

- The rise in Canadian retail sales isn't quite as good as the headline suggests, but we'll still take it. Much of the gain of 0.8% was due to higher prices, but volumes were still up by a modest 0.2% m/m. Regional effects were pronounced and very cold temperatures in western Canada may have depressed sales volumes more than would have otherwise been the case.
- Before delving into the details, a Canadian would be remiss not to comment on the weather's possible influences. Note the chart below. If you thought it was colder than usual this winter, you're not alone! Evan Andrade did up the chart and it shows the difference in mean temperatures in February versus seasonal norms for a month of February dating back to 1981. For example, this February was 12'C colder than a normal month of February in Alberta and Saskatchewan and significantly colder than normal in BC and Manitoba. Western Canada had it particularly rough. The point is that it's feasible that the polar vortex effect kept consumers at home in their woollies instead of spending even with the on-line option such that the report might have been stronger if not for this fact and perhaps some pent-up demand will be unleashed in future.
- **The regional breakdown demonstrates how what's happening in Vancouver's housing market is correlated with weak spending, but the rest of the country is in better shape**. This is not unprecedented; Vancouver has the country's historically most volatile housing market among the biggest cities and what drives Vancouver doesn't necessarily drive the rest of the country. Sales were up in seven out of ten provinces. In value terms, sales were up by 1.5% in Ontario, 1.6% in Quebec and 0.9% in Alberta, but down 1.9% in BC. Vancouver's sales were down 3.5%, but Montreal's sales were up 3.1% and Toronto's sales were up 1.3%.
- **Sales were up in just five out of eleven categories in value terms.** Leading gainers included autos and parts (+1.4%), gas stations (1.9%), food and beverage stores (+0.8%), general merchandise stores (3.8%) and with an assist from furniture and home furnishings stores (+0.2%). Sales fell at electronics and appliance stores (-3.5%), building material and outdoor equipment stores (-1.6%), clothing/shoe stores (-1.6%) and sporting goods stores (-0.5%).
- **In volume terms, sales were down in six of eleven categories.** Autos and parts were up 0.9%, gas stations were up 0.7%, furniture sales fell 0.9%, electronics sales were down 3.3%, building material sales fell by 2.3%, food/beverage was up 0.3%, health and personal care fell by 0.3% and clothing/accessories sales fell 2.3%, sporting goods/hobby sales fell 0.9%, general merchandise was up 3.1% and miscellaneous fell 3%.
- **Apart from recent weather influences, Canadian retail sales volumes haven't really done much since last Spring.** They've trended largely sideways and I still think two factors are at play here: brought forward

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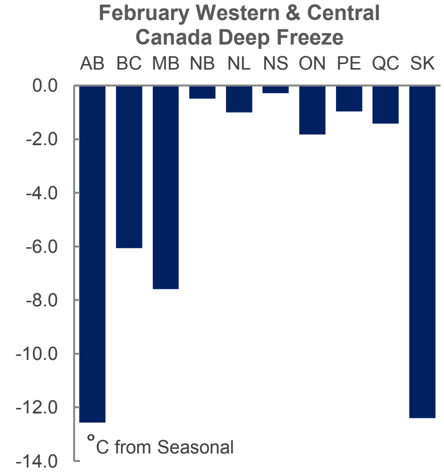

Sources: Scotiabank Economics, Environment Canada.

consumption into the period of prior stimulus (child benefit cheques), and combined rate/housing effects. Solid job and wage gain trends could provide a constructive backdrop for future expectations after we get through the adjustment phase especially if pent-up weather-related demand exists.

- For Q1 overall, retail sales volumes are tracking 1.1% q/q lower in seasonally adjusted and annualized terms after a 0.3% decline in Q4 (both q/q SAAR).
- A simple regression model estimates that Canadian GDP growth is tracking 0% to +0.1% m/m at best for February. I'd likely shave it to 0 with downside given trade effects and distortions with only next week's wholesale numbers pending. This fans soft patch evidence.
- **But is the soft patch likely a surprise to the Bank of Canada? Probably not.** Recall that back in the January MPR before the BoC did its statement changes in March, they had forecast Q1 GDP growth of 0.8%. We're probably still tracking at or north of 1%. Nowcasts nevertheless await March data that will further inform estimates.