

A Gassy Canadian Retail Sales Report

- This is a weak report overall
- The headline drop was driven by positive revisions...
- ...and lower prices, as sales volumes were up...
- ...but take gas stations out and volumes fell
- Q3 retail volumes are tracking 1.8% higher...
- ...but ex-gas, Q3 volumes are up only 0.8%
- Overall, growth is soft and lacking breadth

Canadian retail sales, m/m % change headline/ex-autos, August:

Actual: -0.1 / -0.2

Scotia: -0.2 / 0.1

Consensus: 0.4 / 0.0

Prior: 0.6 / -0.1 (revised from 0.4 / -0.1)

This is a weak report with Scotia's estimate the closest. Any temptation to look past the headline dip in favour of the role played by revisions and the fact that volumes were up a bit should be faded by the lack of breadth. In fact, gas station sales volumes played an unusually strong role in August and during Q3 overall as Canadians hit the road in August and bought gas, snacks and car parts.

Markets were totally shaking off the election results but then reacted to the retail figures. Canada's two year yield it down 5bps on the day and now outperforming a nearly 3bps decline in US 2s. The Canada two year yield fell by about 4bps post-release. The same is true of the CAD reaction to the election and data; it was floating around 1.3090 before the results began to be digested last night and now after the election and data we're at 1.3105.

Total sales volumes were up by 0.2% m/m but a 0.3% decline in prices explains why the dollar value of retail sales slipped a touch.

However, remove the 2.8% m/m jump in sales volumes at gas stations and sales volumes fell by 0.1% m/m (chart 1 shows contributions). Gas station sales were down 0.4% m/m in value terms as prices fell by over 3% but gas station volumes jumped higher. It's important to note that gas station sales include more than just gasoline compared to ages ago and now include bolt-on convenience store sales and auto repairs and parts. Thus, we can't tell what drove gas station sales.

Tracking for Q3 growth in retail sales volumes improved to 1.8% q/q at a seasonally adjusted and annualized rate (SAAR) and largely thanks to revisions. Prior to this morning's figures, Q3 was tracking no material growth. See chart 3.

Once again, however, if one were to remove a 9.3% q/q SAAR jump in sales volumes at gas stations then total retail volumes are only tracking a 0.8% q/q SAAR gain. In other words, sales volumes at gas stations accounted for a full percentage point of growth in total retail sales volumes during Q3. Other categories are tracking mixed results during Q3 so far with September data pending. Volumes are tracking flat at auto and parts retailers, down 4.6% at furniture and furnishings stores and down 3.3% at food and beverage retailers. Volumes are tracking higher in Q3 at sporting goods/hobby stores (+5.9%),

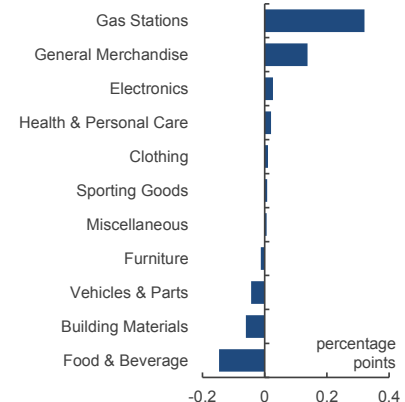
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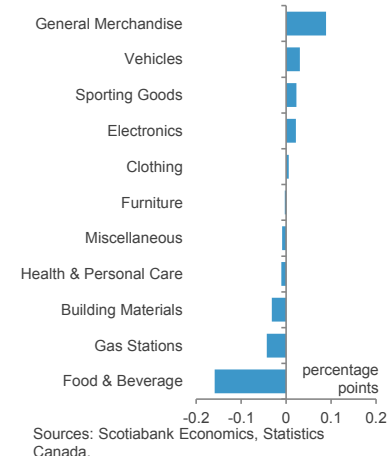
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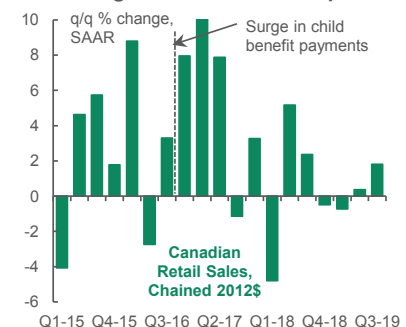
Volume Weighted Contributions to Canadian Retail Sales



Value Weighted Contributions to Retail Sales



Retail Sales Weakness After Surge in Child Benefits Spent



general merchandise stores (4.5%), clothing & accessories stores (2.3%), health and personal care stores (5.9%), an electronics and appliance stores (1.5%).

Seven of 11 categories were higher in terms of the volume of sales. The biggest gainers were electronics and appliance stores (+0.9% m/m), general merchandise stores (+1.2%), gas stations (+2.8%), and sporting goods stores (+0.4%).

August GDP tracking was unaffected and remains at about 0.3% m/m.

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