

Disappointing Q1 for retail sales

Nominal retail sales for March

Latest number: +0.6% (actual) +0.3% (expected)

Excluding motor vehicles & parts

Latest number: -0.2% (actual) +0.5% (expected)

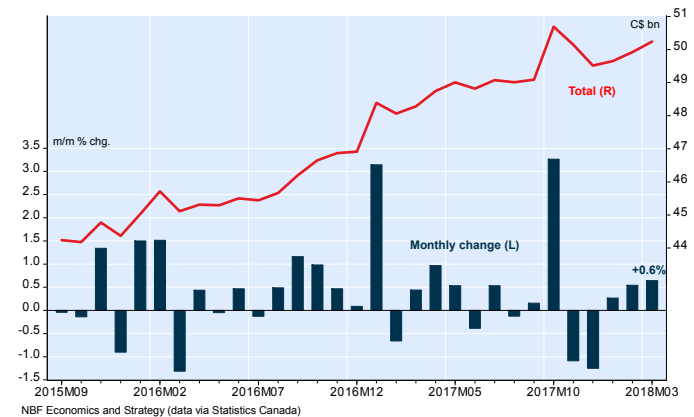
FACTS: Canadian retail sales increased 0.6% in March to C\$50.2 billion (top chart), topping consensus expectations which were looking for a +0.3% print. That result came after an upwardly revised +0.5% reading the prior month (initially reported at +0.4%). In March, sales were up in 6 of the 11 categories surveyed including a 3.0% gain in the motor vehicles/parts segment. Excluding autos sales actually fell 0.2% on a monthly basis as increased outlays on furniture (+3.9%) and clothing (+2.5%) were more than offset by drawbacks for electronics (-2.4%), food (-1.2%) and gasoline stations (-1.9%). Discretionary sales, i.e. sales excluding gasoline, groceries and health products, rose for a third consecutive month, climbing 1.6% m/m. Nationally, retail sales progressed in 7 of Canada's 10 provinces, led by Quebec (+1.3%), Ontario (+0.6%) and British Columbia (+0.6%). In real term, retail spending countrywide was up a healthy 0.8% in March.

OPINION: The retail results for March came in above consensus expectations thanks in large part to the steepest increase in five months in the motor vehicles/parts category. Increased outlays on cars were also responsible for the jump in discretionary sales. Canada's three most populated provinces continued to drive the show, recording the largest monthly increases in dollar terms. The Big Three also topped the provincial ranking when it comes to annual retail sales expansion, a reflection of those provinces' healthy labour markets (middle chart). Still, the good monthly showing Canada-wide will not be sufficient to salvage Q1's performance. Indeed, real retail sales are on pace to decline 4.0% in annualized terms in the quarter, a result which could translate into the first negative contribution to GDP from consumption spending on goods since 2015Q1 (bottom chart). Several elements can explain that poor showing notably the moderation of job creation in the first three month of the year and particularly poor weather early in 2018. Whatever its cause, the deceleration of consumption growth in Q1 is consistent with our view that Canadian real GDP growth softened to roughly 1.5% annualized in the first quarter of the year.

Jocelyn Paquet

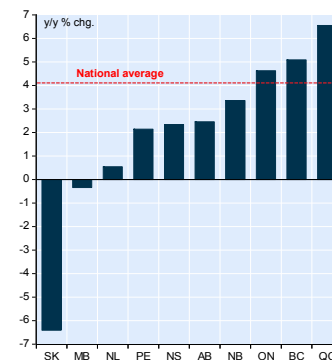
Canada: Retail sales rise near all-time high in March

Nominal retail sales. Last observation: March 2018

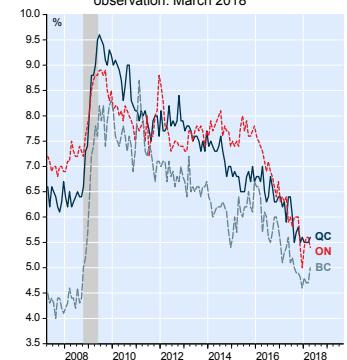


Canada: Big Three provinces lead the way

Nominal retail sales by provinces, March 2018

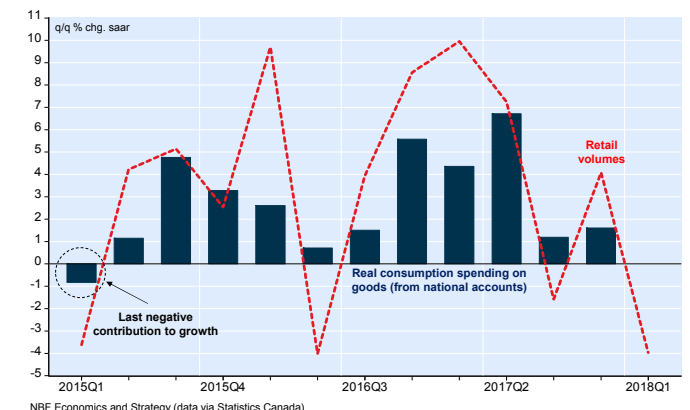


Unemployment rates in Canada's three most populated provinces. Last observation: March 2018



Canada: Consumption spending could have acted as a drag on growth in Q1

Real consumption spending on goods versus real retail sales



NBF Economics and Strategy (data via Statistics Canada)

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