

Retail sales still booming in Q2

Nominal retail sales for June

Latest number: +0.1% (actual) +0.2% (expected)

Excluding motor vehicles & parts

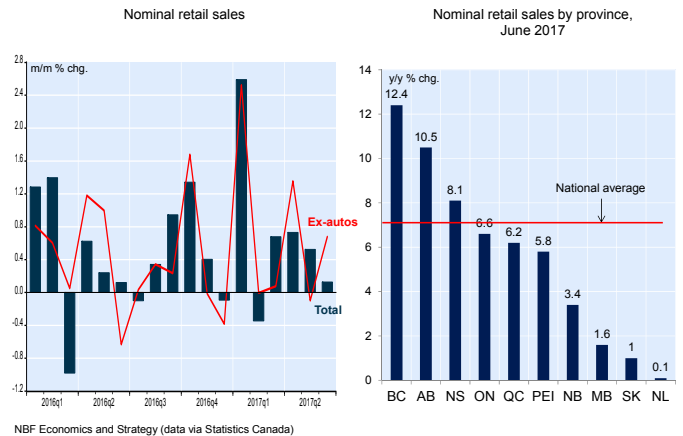
Latest number: 0.7% (actual) 0.1% (expected)

FACTS: Canada's retail sales rose 0.1% in June, slightly below consensus which was looking for an increase of 0.2%. Sales rose in 6 of the 11 major subsectors while autos were down 1.4%. Excluding autos, sales were up 0.7% (well above consensus expectations calling for a meagre 0.1% rise), as increases for sellers of furniture/home furnishings, building materials, clothing, sporting goods, general merchandise and health products dwarfed declines for sales of gasoline, electronics, food/beverage and miscellaneous items. Discretionary sales, i.e. sales excluding gasoline, groceries and health products, rose 0.3% during the month. In real terms, retail spending was up a solid 0.5% during June. Looking at provinces on a year-on-year basis, BC (+12.4%), Alberta (+10.5%) and Nova Scotia (+8.1%) were the best performers, topping the national average of 7.3% (top chart).

OPINION: Even if the June headline number missed consensus expectations, the details of the report are far from being disappointing. Even though the highly volatile auto sales category dropped on the month, discretionary spending rose 0.3% in June following a massive 0.9% gain in May. In volume terms, sales posted a strong 0.5% increase following a 1.0% rise in the prior month. As a result, real retail sales are running at a stunning 8.8% annualized pace in Q2 following 8.9% in Q1 and 8.0% in Q4 (middle chart). This should translate into strong consumption growth in the quarter supporting GDP growth of just under 4%. This is what happens when the stars align with a solid labour market with gains tilted to the cohort with a high propensity to consume and take leverage (bottom chart). This development, combined with a significant housing wealth effect, cheap credit and low gasoline prices explains why consumers remain the main engine of economic growth in the country (consumer confidence is at a post-recession high currently). We expect Canadian economic growth to remain above potential (estimated at 1.5%) in H2 2017.

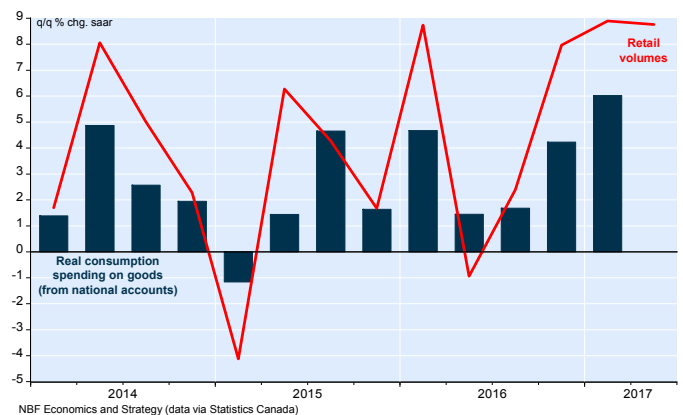
Matthieu Arseneau

Canada: Perspective on retail sales

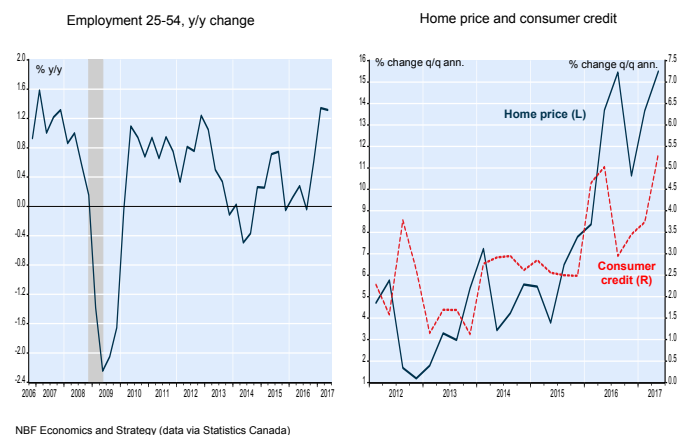


Canada: Another quarter of healthy growth for consumption spending

Real consumption spending on goods versus Real retail sales



Canada: Labour market, housing and credit supporting consumption



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