Data Release: Canadian retail sales surpass market expectations in March

- Canadian retail sales rose 0.7% m/m in March, following a healthy (downwardly revised) increase of 1.5% in February. Today’s reading came in above market expectations which had called for a 0.3% increase.
- Sales rose in seven of the eleven subsectors, representing 71% of retail trade. However, when stripping away prices, sales volumes rose only 0.1%.
- The strength in March’s sales was driven largely by a 1.5% increase at motor vehicle and parts dealers, where sales at new car and used car dealers rose at a healthy 1.8% combined. Widespread gains were also recorded on all types of stores in the food and beverage category, which advanced by 1.3% on the whole. Notable increases were also recorded at clothing stores (+2.4%) and furniture stores (+2%). Meanwhile, sales at health and personal care (+1.7%) and building material stores (+1.6%) rose for the fourth consecutive month.
- On the other hand, some weakness was reported at general merchandise stores (-2.4%) and gasoline stations (-0.5%) – the latter despite rising gasoline prices.
- On a regional basis, sales were up in six provinces. Notable gains were recorded in Ontario (+1.5%), Manitoba (+1.9%) and Alberta (+1.1%), while sales fell in British Columbia (-1.7%) after February’s blockbuster increase.

Key Implications

- Today’s retail report brings the first quarter of 2015 to a close, with retail volumes down 1.6% annualized from last quarter. This reading provides little support to GDP and reinforces our view that the Canadian economy likely saw very little growth in Q1. This is in line with the view expressed by the Bank of Canada in its most recent Monetary Policy Report, and as such supports our view that the Bank will remain on hold at next week’s interest rate announcement.
- While considerable uncertainty remains as to how oil prices will evolve, we expect them to continue recovering gradually over the remainder of the year but to remain at low levels. On this premise we forecast that the price of gasoline is likely to rise gradually, although consumers are still likely to save substantially at the pumps in 2015 compared to 2014. Meanwhile, the pass-through effects of a past depreciation in the loonie are likely to put upward pressure on the prices of imported goods, and thus erode roughly all of these savings.
- Factoring in the hit from lower crude oil prices on incomes, we forecast that retail sales growth is likely to decelerate significantly this year to under 3% (y/y) from 4.6% last year. For more details on the outlook for retail sales, please see our special report: Swings in Oil and Gasoline Prices Cloud Retail Outlook.

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