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# TD Economics

## Commentary

April 23, 2008

### CANADIAN RETAIL SALES SLUMP IN FEBRUARY

- Retail sales fall for the first time in five months
- All sectors still up over year-ago levels

After kicking off the year with pizzazz, Canadian consumers tightened their purse strings in February, and retailers gave up some of the gains posted in January. Retail sales fell by 0.7%, which was well below the 0.3% increase expected by the market. After adjusting for price effects, the picture was unchanged, as the volume of sales fell by 0.7% as well. But coming off of four consecutive months of gains, retail sales are still up 5.7% over year-ago levels.

February's losses were quite widespread, with not a single sector posting a gain. After four months of stellar growth, the automotive sector was due for some pay-back – and indeed that's what it got. Led by a significant weakening in new truck sales, sales in the auto sector as a whole dropped 1.3% on the month. Sales from new car dealers fell 1.7% and used and recreational motor vehicle and parts dealers fared even worse with a 2.8% decline. Despite this monthly decline, automotive sales are at healthy levels.

Stripping away the slump in auto sales, retail sales fared a little better, slipping by only 0.3%. Like autos, most sectors that posted large declines on the month – clothing and accessories stores (-1%) and furniture, home furnishings and electronics stores (-0.6%) – experienced robust sales in January, suggesting that consumers are just returning to a more sustainable level of spending.

Regionally, retail sales were mixed, with Ontario (-1.6%) and B.C. (-1.1%) taking the hardest hits, while New Brunswick (+1.1%) posted the only significant gain. Compared to year-ago levels, every province is performing better, with Saskatchewan (+16%) and Manitoba (+11%) leading the way.

CANADIAN RETAIL TRADE		
	Feb-08	
	M/M % chg.	Y/Y % chg.
<b>Retail sales</b>	-0.7	5.7
<b>Ex-autos*</b>	-0.3	5.6
<b>Real retail sales</b>	-0.7	5.3
<b>Building &amp; outdoor home supplies</b>	-0.3	4.9
<b>Automotive</b>	-1.3	9.3
<b>New car dealers</b>	-1.7	5.3
<b>Gasoline stations</b>	-0.2	16.2
<b>Furniture, home furnishings &amp; electronics</b>	-0.6	5.4
<b>Clothing &amp; accessories</b>	-1.0	3.3
<b>Pharmacies &amp; personal care stores</b>	-0.7	3.3
<b>Food &amp; beverage</b>	0.0	3.5

\*Ex-Autos defined as excluding new & used auto dealers, recreational vehicles, and parts dealers;  
Source: Statistics Canada / Haver Analytics.

Even though consumers were not in a spending mood in February, all retail sectors are up on a year-over-year basis, indicating that consumer spending continues to hold up quite well. In fact, if March numbers come in flat, real retail sales are tracking a solid 4.6% annualized gain for the first quarter. Going forward, strong employment and income growth are likely to support a healthy level of consumer spending. However, we do expect the labour market to cool in the coming months, which would keep consumer spending in check. As well, the recession looming south of the border will likely have some knock-on effects to the Canadian economy, thereby dampening consumer sentiment, and ultimately their spending habits. As such, we expect to see some further moderation in retail sales in the coming months.

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