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TD Economics

Commentary

April 23, 2009

CANADIAN CONSUMERS RESILIENT IN FEBRUARY

- Retail sales continued their upward trend that began in January
- Stripping out prices, sales down 0.3%

Widely unexpected, the Canadian consumer beat the recession blues in February, with retail sales up a slight 0.2%. Retail sales have now risen for two consecutive months, as consumer confidence edged up relative to the last few months despite four months of disappointing employment figures. However, the gains of the last two months have not been strong enough to recover losses of the last half of 2008, and retail sales are still down 6.6% from their peak in September of 2008. So far, peak to trough, retail sales have fallen three times as fast as the 2.1% decline during the 1990's recession. Moreover, the stronger than expected retail sales were driven price effects. Stripping out prices, sales were down 0.3%.

The headline number was largely driven by a strong 3.0% increase in building and outdoor supplies. This is a bit of an anomaly given the housing market correction witnessed in the Canadian economy, although we did see a turn around in existing home sales in February which continued into March. The other star of the report was a 0.7% increase in food and beverage stores, likely due to significantly higher prices for these goods. Normally we would say that food is a bit more recession proof given that people still have to eat, however the main driver was a 2.3% increase at beer, wine and liquor stores. This may reflect a shift from purchases at restaurants and bars to the more cost effective choice to eat in. Excluding these two categories, retail sales were down 0.2% as Canadians continued shy away from purchases of big ticket items, mainly autos, furniture and electronics.

On a regional basis, the increases were largely skewed upwards by Central and Eastern Canada. Sales in New-

CANADIAN RETAIL TRADE		
February-09		
	M/M % chg.	Y/Y % chg.
Retail sales	0.2	-5.1
Ex-autos*	0.6	-1.6
Real retail sales	-0.3	-3.2
Building & outdoor home supplies	3.0	-3.8
Automotive	-0.3	-18.4
New car dealers	-1.6	-20.2
Gasoline stations	1.7	-21.0
Furniture, home furnishings & electronics	-1.9	-8.1
Clothing & accessories	0.0	-2.7
Pharmacies & personal care stores	0.3	4.4
Food & beverage	0.7	6.8
*Ex-Autos defined as excluding new & used auto dealers, recreational vehicles, and parts dealers; Source: Statistics Canada / Haver Analytics.		

foundland, Quebec and Ontario were up 1.0%. Meanwhile sales in Nova Scotia and Saskatchewan were up 0.2%. The declines in all other provinces ranged from 1.2 to 1.3%, with the exception of Manitoba where sales fell 0.2%.

While the last two months have been a nice breath of fresh air, the Canadian consumer still has a long and high hurdle to pass. We estimate that in February, the number of job losses were only at the half way mark of the over half a million job losses expected for this recession, and Canadians have yet to witness any of the personal income losses that are expected during 2009. Further, households have yet to recoup the 176 billion wealth lost in 2008. Falling prices for goods in March is a clear sign that retailers are having a hard time attracting buyers and have had to turn to large discounting to encourage spending. It is unlikely that the momentum in retail spending will continue, and we can expect the consumer to tighten their purses strings further through the next few months.

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