



**Bank
Financial
Group**

TD Economics

Commentary

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GASOLINE STATION SALES NUDGE RETAIL SALES FORWARD IN NOVEMBER

- **Total retail sales up by 0.7% and price-adjusted sales up by 0.2%**

Canadian retail sales rose a solid 0.7% in November – nicely outpacing the consensus view of a 0.2% increase in November. Excluding autos, sales leapt by an even more robust 1.7%. Sales in the month were pumped by a 4% surge in gasoline prices, so that when prices were stripped out, real retail sales registered a tamer 0.2% gain. Despite this modest increase, sales volumes remain decent on a trend basis, with a 3-month year-over-year growth of about 5%.

The outlays were broad-based, with solid gains seen in sectors that typically benefit from the holiday shopping season. General merchandise store sales were a notable bright spot in the month, rising a brisk 2.3%. Home furnishings stores also continued to rack up impressive growth, with a 1.4% gain in the month and an impressive 8.4% y/y rise – indicative of a still-solid housing market. Elsewhere, clothing and accessories stores (+1.2%) had a good month. The food and beverage sector also chalked up a solid 0.9% monthly gain, with beer/liquor stores toasting a particularly strong month (+2.4%) for sales. In spite of the drop in new and used car sales, the automotive sector as a whole managed to eke out a decent 0.6% gain, mainly due to the sizeable 7.7% increase in gasoline station sales. Offsetting this strength was weakness in building and outdoor home supplies stores (-2.4%).

Regionally, Ontario (+1%) and Quebec (+0.6%) posted the largest increase in terms of dollars, mainly because of the rise in gasoline station sales. On a year-over-year basis, western provinces continue to see strong growth, ranging from 7.6% to 15.4%. Alberta is no longer the regional growth leader in sales, slipping into single-digit gains on a yearly basis (+7.6%). The new leader is that hot-bed of activity, Saskatchewan, which posted a rip-roaring 15.4% gain.

Looking ahead, while gathering economic storm clouds in

CANADIAN RETAIL TRADE		
	Nov-07	
	M/M % chg.	Y/Y % chg.
Retail sales	0.7	6.1
Ex-autos*	1.7	8.3
Real retail sales	0.2	5.2
Building & outdoor home supplies	-2.4	4.0
Automotive	0.6	6.3
New car dealers	-3.5	-2.3
Gasoline stations	7.7	22.4
Furniture, home furnishings & electronics	1.4	8.4
Clothing & accessories	1.2	7.5
Pharmacies & personal care stores	-0.2	6.2
Food & beverage	0.9	4.5

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

U.S. and the elevated loonie will continue to give non-resource exporters in Canada serious migraines, the domestic side of Canada's economy, including the household sector, should continue to bear up well. Although price cuts, as domestic retailers continue to face competitive pressures due to the strong Canadian dollar, are likely to slow nominal retail sales to a pace under 4% in 2008, stellar wage growth means the Canadian consumer should have lots of disposable income going forward. Thus, in spite of today's sluggish reading, real retail should remain vibrant over the next couple of months. Moreover, in complete contrast to the situation south of the border, Canadian home prices are still rising, with only a moderate slowdown expected this year. In addition, Canadian households should get a boost from the 1 percentage point GST cut, and declines in personal income taxes and interest rates this year. All told, consumers will continue to do their part in supporting Canadian economic growth and real personal spending should remain around the 3-3.5% mark in 2007Q4 and 2008.

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