

Canadian Retail Sales Slip on December Ice

Michael Gregory, CFA, Senior Economist — 416-359-4747

Canadian retail sales decreased 0.2% in December, recording their first loss in seven months. Vehicle sales drove the headline down, with sales ex-autos up 0.6% (which was in line with the consensus call). However, the latter was flattered by high gasoline prices (and thus service station receipts), resulting in a dismal 0.6% decline ex-autos and gas. Despite decent job growth in the month, it appears that blistering cold weather in parts of the country, along with sagging confidence (the Conference Board's measure dipped 2.6 points) resulted in mixed holiday-related spending. While the cash registers were ringing at furniture, appliance, clothing and electronics stores, the tills were more still at sporting goods, book, music and department stores.

Overall, total sales dropped 0.4% in volume terms. Fortunately, for Q4 has a whole, retail sales still managed to replicate Q3's 5.1% annualized average advance, owing to a very strong November. Across the country, sales were down in seven of 10 provinces, with the largest percentage losses in New Brunswick (-2.9%) and British Columbia (-2.2%). Quebec (+0.8%) and Alberta (+0.5%) gained, while Ontario was flat.

(seasonally adjusted)	(month/month % change)			(% change : a.r.)	
	Dec	Nov	Oct	3-month	12-month
Total	-0.2	1.5	0.8	9.0	4.9
Ex. Auto Dealerships	0.6	0.9	0.8	9.4	4.6
Auto Dealerships	-2.6	4.0	0.6	8.2	7.3
Gasoline Stations	7.6	0.9	6.4	77.6	20.1
Food	-1.6	0.6	-0.1	-4.2	3.1
Drugs	0.0	2.2	0.1	9.3	2.9
Clothing & Shoes	1.2	2.6	-1.8	7.9	8.3
Furniture & Electronics	1.3	-0.6	1.9	10.6	1.9
Total (volume-terms)	-0.4	1.5	-0.1	4.1	4.4

The Bottom Line: Canadian consumers preferred to cocoon at home rather than swoon at the mall in December. However, because foreigners were more than willing to buy Canadian products during the month (real merchandise exports surged 8.1%), this should still result in a middle-of-the-road 0.2% advance in real GDP (halving November's clip). Overall, we're still looking for quarterly GDP growth to come in around 3.0% annualized. But as Bank of Canada Governor Carney told reporters in Paris this morning, although it's "possible" that GDP growth will surpass the Bank's 2.3% projection, it's the momentum into 2011 that counts. Although today's retail sales result casts some doubt on that, it's important to note that consumer confidence rebounded strongly in January (up 7.1 points) as the month's job growth more than doubled December's result (69k vs. 30k). Add in gift card redemptions, extended Boxing Day sales and already-reported revved-up vehicle sales and it's probable that January retail sales rebounded nicely.