



# Economic Flash!

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## Canadian Retail in January: Fireworks at the Start of 2016

	15:Q2*	15:Q3*	15:Q4*	Nov	Dec	Jan	JanY/Y
Total Retail Sales	7.7	5.4	1.8	1.5	-2.1	<b>2.1</b>	<b>6.4</b>
Vehicle & Parts Dealers	16.0	17.4	9.9	3.3	-3.2	<b>4.8</b>	<b>15.7</b>
Total ex Vehicle & Parts Dealers	5.2	1.7	-0.8	0.9	-1.7	<b>1.2</b>	<b>3.4</b>
Total Real Retail Sales	1.6	3.2	1.0	1.2	-2.3	<b>2.1</b>	<b>3.3</b>

\* annualized

- It was a holiday shopping season that lacked a bit of cheer, but consumers must have been holding back until the New Year to loosen their purse strings. After a see-saw between a strong November and a weak December, January retail sales surged. Headline sales advanced by 2.1%, and even if we strip out a strong gain in autos, retailers saw a 1.2% increase. Those gains come in the face of what were weak pump prices during the month, and the 2.1% increase in volumes during the month point to a solid GDP reading for January.
- Motor vehicles sales must have been running on jet fuel in January, rising by 4.8% on the month. Industry data available prior to today's release had suggested a more muted result, but the category's gain was powered by a 5.3% increase in new car sales. New car lot spending is now up by 17% year-on-year. The depreciation of the Canadian dollar, and pending re-pricing of imported cars may be pushing consumers to push forward purchases. Furthermore, the unseasonably mild weather in January could have allowed for test drives that would have otherwise been delayed until the spring.
- Gasoline prices were down 1.6% on the month in January, depressing filling station spending, and with a further decline in February we're likely to see another decline coming next month. Clearly, savings at the fuel pump are enable a bit more spending for shoppers, with sales ex-autos and gas up by 4.1% on the year.
- The rest of the categories showed an unsurprising skew toward gainers on the month, with two standouts being health and personal care spending (+3.5%) and general merchandise (+4.9%). The general merchandise advance snaps a string of declines, and reverses a weather-influenced slump in December. It's worth noting that with many retail categories posting strong and even double digit gains on the year, it will be hard to see a further acceleration without a firming labour market, and healthier aggregate income gains.
- On a provincial basis, today's release once again illustrated the divergence in provincial fortunes that we've seen over the past year and a half. Ontario and BC are tracking year-on-year growth

in the 9% range, while Alberta sales are down 2.2% from year-ago levels. Newfoundland (+2.6% yoy) is also the laggard amongst maritime provinces by a wide margin.

## Implications & Actions

**Re: Economic Forecast** – After a strong manufacturing report on Wednesday, today's surge in real retail sales suggests that we're set for a 0.4% in gain in January GDP. That now leaves Q1 as a whole tracking between 2-2.5%, easily above the BoC's 1% forecast. However, it will be hard to maintain the current blistering pace in retail sales without a turn for the better in the labour market and for aggregate Canadian incomes.

**Re: Markets** – Soft inflation data released alongside the retail sales numbers mitigate the effect of this report on the Canadian dollar and fixed income.

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