Retail noise.

Canada: Retail sales (Feb) up 0.5%m/m, but disappoint the median.

Retail sales in February proving a little disappointing with the consumer appearing to pull in their respective horns a bit. Headline sales rose 0.5%m/m although well back of the median at 1.0%. Not too far off our own forecast for a 0.4%m/m rise. Removing autos from the picture sees sales falling by -0.1%m/m. Again well back of the median looking for a rise of 0.5%m/m but better than our own forecast looking for a decline of -0.4%m/m.

Overall sales volumes rose 0.6%m/m. So a little bit of upside here, and of course there were upward revisions to the January data (0.7% to 0.9%) that was helpful as well.

Again, for a market that is wrestling with having to price the prospect of the BoC moving from a monetary policy that was built on the back of market and financial calamity, this report is once again challenging expectations. Unduly so we would suggest. Yes the number is disappointing, but again it is one report and does little to scupper the broader economic story which the BoC is seen to be responding too.

As for today's numbers, the noise associated with the retail sales data is largely a function of January's robust 2.0%m/m gain in the x-auto category helping to cannibalized February's numbers

Underneath the headlines the story was generally in line with our expectations. The expiration of the Government's home renovation tax credit which brought forward future sales, was expected to have prompted a plunge in hardware and specialized building centre sales. Indeed this was the case with build all centre sales down -7.6%m/m following a 14% rise in January. So too January's 15%m/m jump in the home furnishings category resulted in a -3.5%m/m decline in the category for February.

On the upside, an 8.1% spike in unit vehicles sales supported a 3.8%m/m rise dollar sales. Gasoline station sales rose 0.5% despite a decrease in prices (-1.7%m/m). Clothing sales were particularly strong , rising 4.3%m/m boosted by Olympic fever and everyone's infatuation with red mittens. Beer and alcohol sales jumped 3.7% as one may presume Canadian's felt inclined to indulge in celebrating Olympic victories.

Overall, the retail sales report much like the CPI seems to cut across the grain of BoC attempts to adjust its monetary footing. The reality is that the data both CPI and retail sales are being pulled around by the transitory distortions associated with - in the case of the CPI - the unwinding of Olympic related pricing spikes, and for the February retail sales report, January's cannibalization of several retail categories related to the federal home renovation tax credit.

Net, net, focus on the broader economic story rather than the high volume data flows which for today, have introduced an element of noise into the monetary story. It is just static. The somewhat soft retail sales data should not be read as a broader change in the disposition of the Canadian consumer to consume.

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Disclosure appendix

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2 All market data included in this report are dated as at close 23 April 2010, unless otherwise indicated in the report.

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