A little spit and polish required.

Canada: Retail sales (May) -0.2%m/m.

A little spit and shine may be required but we can buff this number up from a negative into a positive. On the surface, a pretty disappointing outcome with sales dropping by -0.2%m/m (x-autos -0.1%, median 0.5%), well back of the median at 0.4%. A downward revision to the previous month didn't help the outlook either.

But as we clear away some of the muck, we find a core sales number that is still fairly intact.

May's retail sales number for Canada was expected to be a fairly clean number having moved beyond the volatility associated with March religious holidays that pulled sales out of April and carried them forward into May. Which in one sense gives today's picture on sales a little more gravitas. And of course given the level of uncertainty that exists with regards to the economic outlook, the decline in retail sales only adds to that level of uncertainty.

To be sure, the Canadian economy in Q2/10 is bearing little resemblance to that economy in Q1/10. Into the first half like a lion, exiting like a turkey.

Yet the flesh of the retail report seems considerably more firmer than the blotchy skin lets on. Off the top, sales volumes were up 0.4%m/m. Of note, a significant decline in gasoline sales (-2.3%m/m) was in part a function of reduced prices at the pump according to Statcan. And while headline sales did indeed decline, the bulk of the impact outside of pricing changes associated with petrol, was found in a hard hit building materials and garden centres sales. Sales for the build all category declined by -4.1%m/m, following last month's -3.4%m/m decline.

At little history is warranted to get a handle on the current. Recall that by February, the government of Canada's home renovation tax credit came to an end. It was a tax credit that had encouraged home renovation activity in and amongst a consumer that seemed to need little encouragement. One view would be to see today's decline in the build all category in the context of a continued wind down of activity that had previously been pulled forward courtesy of the tax incentive. If we remove the down side impact associated with the build all category and price affected gasoline sales, the rest of the sales report sees a rise of 0.4%m/m.

Yes, cutting out the bits we don't like isn't always a fair approach. Yet there are other areas of optimism that warrant this type of approach as a means of determining whether or not we are seeing something untoward taking place amongst the Canadian consumer.

Lets look at where Canadians are spending their gold colored coins. Sales in the discretionary categories proved rather strong. Sales of jewelry, luggage and leather goods were up 3.2%m/m. So too were clothing sales strong, up 2.8% as unseasonably warm temperatures would have encouraged the sale of seasonals. It seems hard to imagine that if Canadians are at all worried about their financial futures that they would be splashing out on bling at this time.

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Disclosure appendix

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2 All market data included in this report are dated as at close 22 July 2010, unless otherwise indicated in the report.

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