

Canada: Conspicuous consumption - how unCanadian.

Retail sales (Mar), up 2.1% m/m besting the median at 0.1% m/m

Retail sales up a whopping 2.1% m/m in March, besting by a wide margin the median at 0.1% and our own forecast looking for a gain of 0.3%. Even the high forecast at 0.6% pales in comparison to the actual. Removing the impact of auto sales, retail trade is up a strong 1.7% m/m. Again running well ahead of the median at 0.4% m/m and our own slightly more optimistic 0.6% m/m. Once again for Canada, the upside surprise is big and its real. On a volume basis, sales are up 2.2% m/m.

It has been a decent week for Canadian data. Recall earlier in the week wholesale trade also managed to provide a significant upside surprise with wholesale trade volumes jumping an equally impressive, 2.2% m/m. Coupled with today's retail report, both of these reports are going to drive right into the May 31st GDP report, setting us up for another bang up month and a quarter that is going to best Q4/09's impressive 5.0% q/q ann. Indeed, a quick run of the numbers suggests that the first quarter is achingly close to printing 6.0%.

Beyond the eye popping potential for GDP, we would suggest that today's retail sales report also raises policy issues for the BoC. While we are emboldened by the strength and resiliency of the Canadian consumer, we are becoming increasingly concerned that the current monetary profile is encouraging a path of behaviour that leads to significant consumer financial imbalance. It has been evident for some considerable period of time now that the consumer has been embracing cheap money. Trading off savings and future spending for consumption today at the risk of budgetary solvency. Don't blame the consumer. They are merely responding to the pricing signals afforded by a very loose monetary policy. Park your money in money market and earn nothing vs. the psychological surge associated with spending.

In that vein, while we believe that the BoC will be hiking rates at the June 1st meeting in response to the assumptions surrounding the output gap and its closing well ahead of expectations, so too is their hopefully a nod to the view that rate policy need change as a means of discouraging consumer behavior that if left unchecked will lead to consumer imbalance.

Despite a compelling slug of data today, it is clear that markets have trodden on the data in their haste to get a grip on the flow of event out of Europe. At the end of the day, the data looks stale (March retail, April CPI) against the backdrop of current events. For today the market continues to wrestle with the potential impacts of market uncertainty on the broader global economic recovery rendering the Canadian data a quaint afterthought.

Buy' N Large

Underneath the headlines. It appears that the Canadian consumer was able to get over the hurdle of a -4.2% m/m plunge in unit auto sales in March by moving up market. At the same time that unit auto sales were plunging, dollar sales in the new vehicle category rose by a whopping 3.5% m/m. Electronics up 2.4% m/m. A nice post Olympics splurge as Canadian's appear to have been setting up living rooms for the onset of the Stanley Cup playoffs. Building materials benefitted from mild weather conditions, rising by an astounding 6.6% m/m. So much for needing tax incentives to get Canadians to spend on the home. Recall that a tax incentive aimed at the renovation market expired earlier in the year. Turns out a little warm weather is an even

more powerful incentive. Food and beverage sales were flat -to busy kicking tires to eat. Gasoline station sales up 2.3% m/m as all those new vehicle dollar got driven around the road. Clothing sales jump 4.4% m/m. etc etc etc.

April showers.

Of course in this report is also the calendar effect associated with the early Easter holiday. So the expectation here is that we will need to aggregate the two reports together as we fully expect to see April's sales being cannibalized by the March report. Although in the absence of the April report the focus is entirely on the strength of the March data set.

Disclosure appendix

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