

 **CANADA**

The drop in sales of durable goods impedes retail trade

HIGHLIGHTS

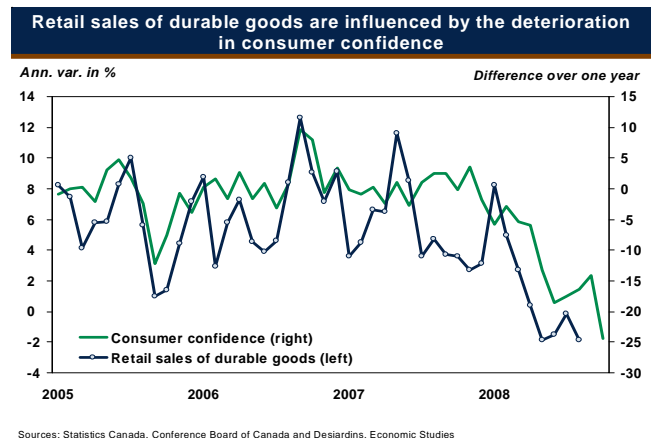
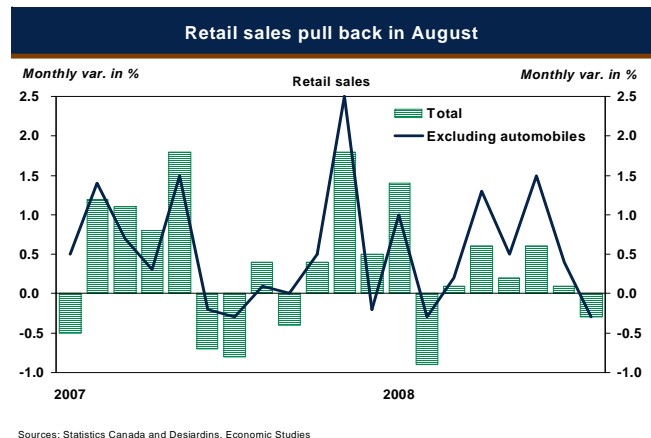
- Sales by Canadian retailers fell 0.3% in August.
- As per the preliminary data, new car sales fell 1.2%. However, used car sales rose 2.1%, meaning that total motor vehicle sales made almost no contribution. Retail trade is thus down 0.3% once motor vehicle sales are excluded.
- Sales of most other durable goods are also down.
- Gas station sales fell 3.7%. Note that the gas component of consumer prices fell 6.6% that month.
- In real terms, total retail sales pulled back 0.3%. Overall, the effect of price growth was negligible.

COMMENTS

The sharp deterioration in Canadian consumer confidence that occurred as a result of the increase in gas prices earlier this year and then the uncertainties associated with the current financial crisis is increasingly affecting developments in the durable goods trade. Moreover, real wage growth is no longer as beneficial due to the big spike the annual inflation rate has recorded over the last few months. We can therefore expect retail trade's evolution to be more erratic until early 2009. This will translate into a slowdown by domestic demand, resulting in a weaker economic outlook for the next few quarters.

Implications: August's dip in retail sales, combined with disappointing performance by many other economic indicators that month, is painting a fairly grim picture of Canada's economy. According to our estimates, real GDP by industry could fall by about 0.4% in August. The pullback should therefore wipe out some of the gains made in July, when an astounding 0.7% rise was recorded. Our forecast for the whole of Q3 was revised to an annualized 1.0% recently, growth that is well below potential. The Bank of Canada should thus continue with monetary easing in the months to come.

Benoit P. Durocher
Senior Economist



François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com