HIGHLIGHTS

• Retail sales went up 0.6% in May after April’s modest 0.1% increase.
• Auto sales rose 1.8% after gaining 0.7% in April. Excluding automobiles, sales are up 0.3%.
• Aside from automobiles, renovation centres, grocery stores, leisure goods stores and nonstore retailers showed solid increases.
• Service station sales fell 0.2% following a 3.1% drop. Excluding autos and gas, sales rose 0.3% in May after going up 0.5% in April.
• Furniture stores, electronics stores, food services, clothing stores and department stores all posted lower sales in May.

COMMENTS

After two months of softness, largely caused by falling gas prices, retail sales did well in May. The 0.6% gain was the second highest recorded since the end of summer 2012, and is slightly above expectations.

This solid performance reflects the substantial improvement to consumer confidence in the last two months. This change can be seen in the last two monthly increases by sales excluding automobiles and gas. The 0.4% average for April and May is twice the 0.2% growth posted during the first three months of the year. What’s more, the solid performance by auto sales must not be overlooked. Since May 2012, they have grown 8.5%.

Besides automobiles, sales growth was buoyed by renovation centres (associated with residential investment rather than personal consumption) and grocery stores. The 0.2% drop by clothing sales is not too worrisome, as it follows two months of strong increases.

Implications: May’s solid retail sales growth suggests that real goods consumption will remain strong throughout the second quarter. Nevertheless, we expect a bit more weakness in services.

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