Canada: Wholesale joy.

Wholesale sales (Mar) jump 1.4%m/m. Volume up 2.2%m/m.

Canadian wholesale sales for the month of March bounced nicely, rising by 1.4%m/m, well ahead of the median looking for a more relaxed improvement of 0.6% (HSBC 0.6%). Impressive, yes. Although a downward revision to the previous month (from -1.2% to -1.5%) means that March's gain failed to fully recover the ground lost to February. But the story gets more real. On a volume basis, sales rose a whopping 2.2%m/m which will flow positively into an already decent looking GDP report set for release at month's end.

The impressive pick up in sales volumes also fits with what we were seeing on the trade side earlier in the month with goods export volumes rising by 2.3%m/m. Wholesalers see a lot of cross border activity. Statcan points out that the differential between the volume sales and the dollar sales is in part accounted for by the appreciation of the Canadian dollar vs. USD.

Behind the headline numbers, the good news is liberally spread around with six of seven sectors seeing sales growth. The one laggard, personal and household goods which declined by -0.6% led by a -6.6% decline in apparel and footwear. Of particular note, on the upside, machinery, equipment and supplies sales were very strong, rising by 4.9%m/m, led by agricultural equipment (+5.6%), computers and communication equipment (+6.0%) and "other" machinery (+7.7%). This dovetails nicely with what is going on in the US, and the related data (US wholesale sales of machinery were up 2.3%m/m, separately US factory shipments saw machinery sales up 4.8%).

So the question for Canada and its economic recovery, is whether or not the pick up in machinery and electronics sales at the wholesale level is apart and parcel of a necessary recovery in Canadian business investment. Recall that the Q4/09 GDP report reflected a -2.4% decline in business investment in machinery and equipment. Or is what we are seeing strictly a reflection of a recapitalization of the US business sector.

For Canada with its dismal productivity rates, proceeding with a recapitalization along with the adoption of new technologies (investment in electronics and communications) is a very necessary facet of a sustainable economic recovery for Canada. It is a necessary element of a balanced recovery going forward as the impact of government spending recedes and a very necessary easing in Canadian consumer consumption takes hold.

For that answer, we will have to wait until May 31st and the release of the Q1/10 GDP report. Under the auspices of a strengthening Canadian dollar, the pricing mechanisms suggest that the right incentives are in place to encourage this type of behavior - the recapitalization of the Canadian business sector. Alas, there is often a divide between the theory and the realities of the real world.

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Disclosure appendix

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2 All market data included in this report are dated as at close 19 May 2010, unless otherwise indicated in the report.

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