

Scotiabank Nowcast: Strong Expansion of Wholesale Sales Boosts Q2-2019 to 2.20%

This note is part of a series that will be published after important data releases, documenting mechanical updates of the nowcast for Canadian GDP coming from the Scotiabank nowcasting model. The evolution of this nowcast will inform Scotiabank Economics' official macroeconomic outlook.

The model is described in a related note [here](#). Changes to the model this quarter are detailed in the box on the next page.

- Wholesale sales rocketed up by 1.7% m/m in April, the fifth straight month of increases. Sales in five out of seven industry groups rose in April, with those of motor vehicles expanding 3.2% m/m. More encouraging signs for business investment came from machinery and equipment wholesalers, who saw their sales rise 2.2% m/m, having risen by 3.5% in March.
- Inventories expanded, but the gain was less pronounced than in March and the stock to sales ratio declined slightly to 1.39 in April from 1.40 in March.
- Incorporating the information in this release raises the industry-level GDP in April to 0.24% m/m and boosts the nowcast for Q2-2019 to 2.20% Q/Q SAAR.

Table 1: Canadian GDP Nowcast, Q2-2019

	Nowcast Date	Q2-2019 GDP Growth, %	GDP by industry, %m/m		
			Apr	May	Jun
Initial nowcast	21-Jun-19	2.02	0.19	0.00	0.15
Revisions		-0.01			
Wholesale trade, Canada		+0.18			
Wholesale inventories, Canada		+0.01			
Current Nowcast	25-Jun-19	2.20	0.24	-0.00	0.16

CONTACTS

Nikita Perevalov, Senior Economist
 416.866.4205
 Scotiabank Economics
nikita.perevalov@scotiabank.com

Chart 1: Canadian Wholesale Sales

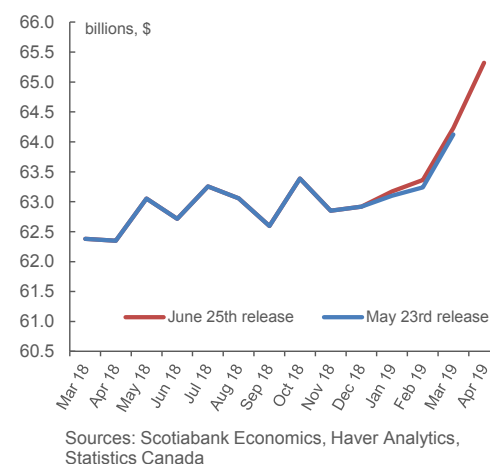
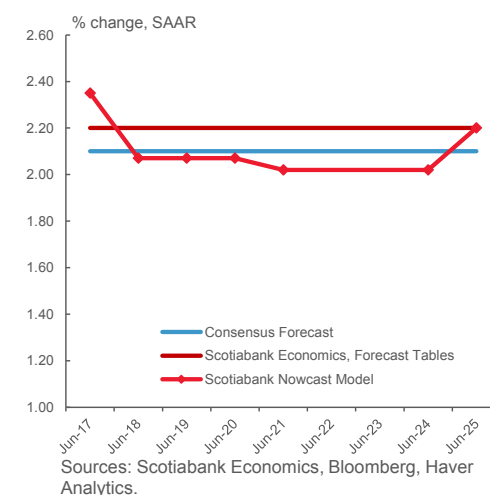


Chart 2: The Evolution of the Scotiabank Economics Q2-2019 Nowcast



Box 1. Changes to the Nowcasting Model

Starting in Q2-2019 we made the following tweaks to the model used for the Canadian GDP nowcast. A recent paper from the Bank of Canada points out that revisions to monthly GDP for the first month of the quarter are very significant, construction industry being one of the most heavily-revised (see Rizetto, P., 2018. [GDP by industry in real time: are revisions well-behaved?](#) Staff analytical note 2018-40, Bank of Canada). Given that in Q1-2019 the main reason for the forecast miss was data revisions and construction industry in particular, we made the following modifications to capture these aspects of the Canadian data:

- 1) Within a given quarter we treat observed monthly GDP as more uncertain than later vintages. This implies that first releases of monthly GDP are compared against all other available data and the model is used to back-cast monthly GDP in real-time. Technically this is accomplished by increasing the variance in the observation equation related to monthly GDP.
- 2) In order to cover real estate and construction in more detail we add average seasonally adjusted house price in Canada, as reported by CREA. This is also in line with evidence that house prices have leading information for Canadian GDP (see Lalonde, Perevalov, 2019, [A New Approach to Forecasting Economic Downturns](#)).

Other data we included are i) a measure of equity prices (S&P TSX index), and ii) Canadian employment from the Labour Force Survey.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabank Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Invert S.A., Institution de Banca Multiple, Scotia Invert Casa de Bolas S.A. de C.V., Scotia Invert Derives S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorized and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Invert, S.A., Scotia Invert Casa de Bolas, S.A. de C.V., and Scotia Derives, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.