Scotiabank Nowcast: Flat June Employment Lowers Q2-2019 Nowcast to 2.74%

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.

- **The labour force survey for June was mixed, with employment remaining flat, while hours worked increased (+0.7 m/m) after a decline in May. The unemployment rate rose by 1 ppt as more people were looking for work, the labour force expanding by over 30K people.**
- **Separately, the Bank of Canada's commodity price index continued to decline in June, driven by lower oil prices.**
- **Incorporating labour data and the commodity price index leads us to lower June industry-level GDP expansion to 0.21% m/m, corresponding to quarterly growth of 2.74% Q/Q SAAR.**

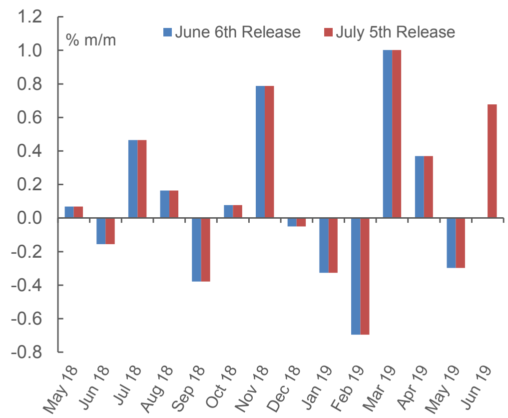
Table 1: Canadian GDP Nowcast, Q2-2019

	Nowcast Date	Q2-2019 GDP Growth, %	GDP by industry, %m/m Apr actual	May	Jun
Previous nowcast	*03-Jul-19*	2.80	0.26	0.18	0.27
Revisions		0.00			
Commodity price index, BoC		-0.04			
Hours worked, Canada		+0.04			
Employment, Canada		-0.06			
Current Nowcast	*05-Jul-19*	2.74	0.26	0.18	0.21

CONTACTS

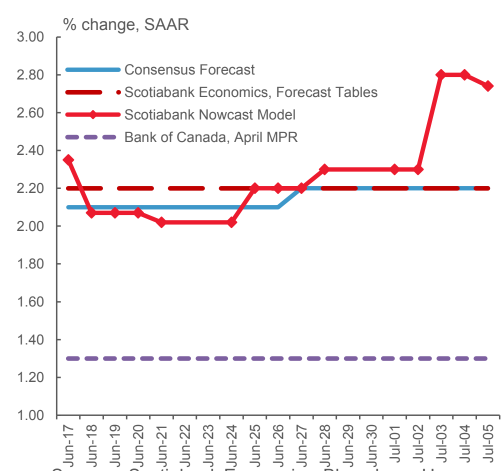
Nikita Perevalov, Senior Economist
416.866.4205
Scotiabank Economics
nikita.perevalov@scotiabank.com

Chart 1: Hours worked, Canada



Sources: Scotiabank Economics, Haver Analytics, Statistics Canada

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



Sources: Scotiabank Economics, Bloomberg, Haver Analytics.

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.