

Scotiabank Nowcast: Weak Retail Sales in May Edge Q2-2019 Down to 2.75%

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 page 2.

- Canadian shoppers took a break in May, with real retail sales declining 0.5% m/m. Controlling for prices, sales of food and beverage (-2.45% m/m), clothing (-2.95%), sporting goods (-1.87% m/m) and general merchandise (-1.34 % m/m) explain the decline. Sales of motor vehicles fell by a more modest 0.3% m/m.
- While retail sales do not track consumption very well—and Q1-2019 is a case in point — as retail sales declined slightly in real terms while national accounts consumption skyrocketed, nevertheless, the decline in May points to a moderating growth impulse coming from Canadian shoppers.
- This data release is consistent with weaker expected growth in May GDP by industry and pulls Q2-2019 nowcast down to 2.75% Q/Q SAAR. The soft retail sales print can point to further downside risks to this nowcast.
- Note: this is the last nowcast report for July, we will resume the series in the first week of August after a short break.

Table 1: Canadian GDP Nowcast, Q2-2019

	Nowcast Date	Q2-2019 GDP Growth, %	GDP by industry, %m/m		
			Apr ^{actual}	May	Jun
Previous nowcast	17-Jul-19	2.80	0.26	0.18	0.28
Revisions		0.00			
Retail sales, Canada		-0.05			
Current Nowcast	19-Jul-19	2.75	0.26	0.15	0.28

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Chart 1: Retail Sales, Canada

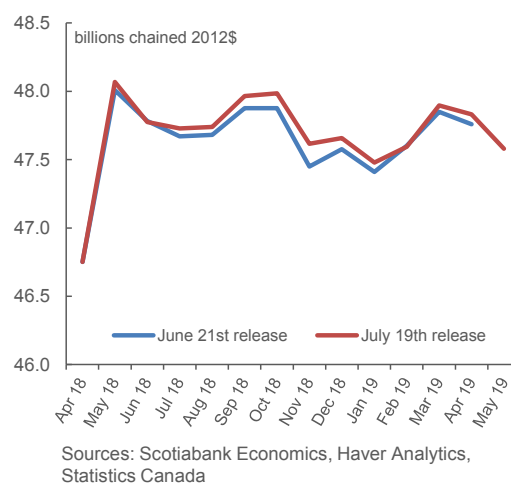
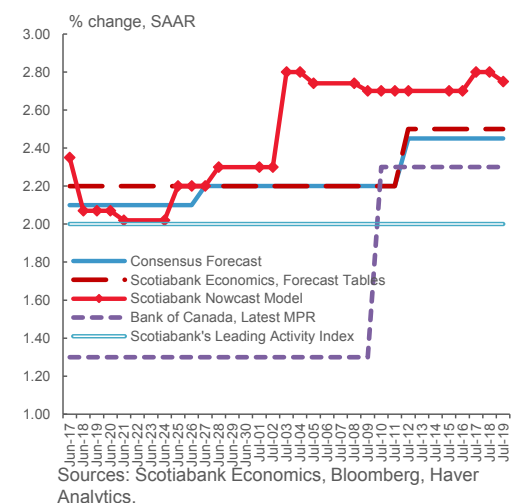


Chart 2: The Evolution of the Scotiabank Economics Q2-2019 Nowcast



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.

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